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Indian State Chief Is Reinstated in Setback for Gandhi

By William Claiborne
Washington Post Service

BOMBAY — The deposed chief minister of the state of Andhra Pradesh, N.T. Rama Rao, was reinstated Sunday in a major political setback for Prime Minister Indira Gandhi's Congress (I) party.

On Aug. 16, Mr. Rama Rao and his cabinet were summarily dismissed after a Gandhi-appointed state governor, Ram Lal, ruled that the government had lost its majority in the legislative assembly. Mr. Lal subsequently resigned.

On Sunday, Mr. Rama Rao was told by the new governor, Shankar Dayal Sharma, that he was satisfied that Mr. Rama Rao's deposed Telegu Desam party had a majority, and he and eight cabinet ministers were sworn into office again.

The interim chief minister, N. Bhaskara Rao, whose splinter faction of Telegu Desam had pledged its support to Mrs. Gandhi and her party, resigned after failing to prove a legislative majority within the required 30-day period.

The reversal for Mr. Bhaskara Rao came after a backlash of popular sentiment for Mr. Rama Rao, a former film star, had focused national attention on the issue of states' rights.

The dismissal had led to charges that Mrs. Gandhi was engaged in a systematic campaign to topple opposition party governments in order to gain a political advantage before the parliamentary elections that are due to be held by January. The chief minister of Jammu and Kashmir state was dismissed in July and the chief minister of Sikkim in May.

The latest controversy has had wide political implications not only for Andhra Pradesh, but throughout southern India, where regionalism and resentment over what is viewed as dictatorial central rule run strong.

Opposition leaders who had united behind Mr. Rama Rao in a "save democracy" campaign led a series of processions Sunday night in Hyderabad, the state capital, and declared that a victory had been won "for the struggle for democracy."

Mr. Bhaskara Rao had at first refused to allow Mr. Rama Rao to prove his legislative majority in a vote of confidence. Then for three successive days ending Thursday, the assembly was adjourned without a vote after sessions lasting only a few minutes and marked by bitter exchanges.

Mrs. Gandhi, who has persistently denied opposition charges that she ordered her party to undermine Mr. Rama Rao, had no comment Sunday on the reversal.

For his part, Mr. Rama Rao said he would work to strengthen democracy in the state.

"The will of the people has prevailed at last," he said.

He added, "The only way in which I can repay the great love of the people is to dedicate myself to the principles bequeathed to us by our freedom struggle. To strengthen the foundations of democracy is to provide our state with a pure and effective government."

Mr. Rama Rao, who had 165 loyal legislators sequestered in his film studio in Hyderabad awaiting the calling of a majority roll call in the 295-seat assembly, was given 30 days by Mr. Sharma to put his government to a vote of confidence.

An aide to Mr. Rama Rao said the chief minister would call a confidence vote no later than Sept. 28.

It is not clear why the Congress party reversed itself and allowed Mr. Rama Rao to be restored to power. The prime minister's political strategists said Sunday they believed that Mr. Bhaskara Rao decided to resign only after it became clear he would lose the support of his Congress (I) backers in the assembly if he did not quit.

Political analysts suggested that the Congress leadership decided that while Andhra Pradesh was probably lost to Mrs. Gandhi in the parliamentary elections, it could recoup some support in neighboring Tamil Nadu and other southern states by laying to rest the resentment that had been building over the issue, while at the same time defusing the one issue that had united the normally fractious national opposition parties.

The Associated Press

A PRINCE IS BORN — Diana, princess of Wales, left St. Mary's Hospital in London Sunday, a day after she gave birth to a 6-pound, 14-ounce boy. The young prince, Henry Charles Albert David, is third in line to the throne of England, after his father, Prince Charles, and his 2-year-old brother, Prince William. Henry's family will call him Harry.

CIA Said to Circumvent Rules on 'Secret War'

By Blaine Harden and Joe Pichirallo
Washington Post Service

WASHINGTON — A raid by U.S.-backed rebels in Nicaragua two weeks ago was carried out with three rocket-equipped aircraft supplied by the Central Intelligence Agency. Congressional critics charge that the supply of the planes was part of what may be an administration effort to circumvent strict spending limits on its "secret war" in Central America.

The assault on a Nicaraguan military school near the Honduran border gained notice in the United States because two Americans were killed when Nicaraguan troops shot down a rebel helicopter in which they were traveling.

The attack was possibly more notable as the first known instance of rebel use of multiple aircraft in coordination with attacking ground troops. Moreover, the previously unknown guerrilla possession of the three aircraft, Cessna-O2A observation planes fitted with rocket pods, marks a significant escalation in the rebels' firepower.

Both the CIA and the *contras*, as the rebels are known, declined comment on where the planes came from.

But information gathered through sources in Congress, federal agencies, the aircraft industry and through public documents indicates that the three planes traveled a long and circuitous route that began last December at a National Guard airport beside the Hudson River in New York state.

In less than four months, custody of the planes moved from the U.S. Air Force, to a top-secret Joint Chiefs of Staff operation code-named "Elephant Herd," to the CIA, through Summit Aviation Inc., a Delaware aviation company, where they were armed and ultimately delivered to the contras.

The journey of the planes began at Stewart International Airport, the home of the New York Air National Guard's 105th Tactical Air Squadron when seven of its O2As were designated "excess."

A spokesman for National Guard headquarters in Washington said that on Dec. 28 three of the planes, the aircraft now believed to be in the possession of the contras, were flown to Andrews Air Force base and signed for by the Air Force Logistics Command. In February, the air force declared the same planes "excess," and they were dropped from its inventory.

Air force documents show that the planes then were turned over to project "Elephant Herd." According to the air force, "Elephant Herd" is the code name for "a Joint Chiefs of Staff operation — a multiservice tasking." The phrase "multiservice tasking," according to congressional sources, can refer to highly secret operations involving several branches of the military. The attempt to rescue the American hostages in Iran in 1980 was a multiservice tasking.

The nature of these transactions

(Continued on Page 3, Col. 1)

Nicaragua Wants MiGs Despite U.S. Warning

By Robert J. McCartney
Washington Post Service

MEXICO CITY — A new military airport in Nicaragua will be ready by the end of this year or early 1985 and the country is seeking MiG-21 fighters from the Soviet Union to use at the base, according to Defense Minister Humberto Ortega Saavedra.

Several dozen pilots will be trained by early 1985 to give the country the capability of deploying advanced combat aircraft, Mr. Ortega said Saturday. He said the new facility is to be protected by an air defense system.

The United States repeatedly has warned Nicaragua against obtaining modern warplanes and U.S. officials have hinted that the United States would attack the planes if Nicaragua brought them into the country. Some diplomats in Nicaragua doubt that the Russians would risk provoking the United States by supplying the aircraft.

Mr. Ortega said Moscow has not decided whether to supply the MiG-21s. But he expressed confidence that Nicaragua would obtain warplanes eventually, either from the Soviet Union or from another country, such as France.

"We do not believe there is much of a problem" in obtaining the planes, Mr. Ortega said.

Mr. Ortega has been in Mexico since Wednesday to participate in ceremonies marking Mexico's Independence Day, which took place Sunday. He is the brother of Daniel Ortega, the Nicaraguan chief of state.

Nicaragua would dramatically strengthen its air force by acquiring modern jets. Currently, the Nicaraguans have three 1950s-vintage jets and a handful of lesser warplanes. Neighboring Honduras has a number of modern U.S. and French-made jets.

Nevertheless, the United States has said that Nicaragua's acquisition of advanced fighters would seriously disrupt the regional balance of power in Central America, in part because Honduras's advantage in the air helps to compensate for Nicaragua's edge in ground forces.

The military strengths of Nicaragua and Honduras often are compared because relations between the two have been tense in recent years, with each accusing the other of seeking to provoke a war.

The United States has defended its own military buildup in Honduras and its past financing of Nicaraguan rebels by pointing to the Nicaraguans' buildup of infantry and other conventional forces since the 1979 Sandinist revolution.

Mr. Ortega declined to say how many planes Nicaragua was seeking, except to say that it was "not in the hundreds" and to stress that the number of pilots was in the dozens.

Mr. Ortega denied that the Russians were reluctant to provide the planes, saying lack of an adequate airport was the principal cause of delay. He said, "The problem is that there is no landing strip yet. There should not be any problem

(Continued on Page 3, Col. 3)

New Israeli Cabinet Votes $1-Billion Budget Cut

By Edward Walsh
Washington Post Service

JERUSALEM — The new Israeli government agreed Sunday to cut $1 billion from its budget over the next year.

But it left the difficult task of deciding where to make the cuts to a four-member committee that is evenly split between the two main political blocs that control the national unity government.

The commitment to cut $1 billion from the government budget of about $22 billion came at the first meeting of the unity cabinet, which took power last Friday amid signs of continuing deterioration in the Israeli economy.

The committee that will specify what cuts should be made is composed of Prime Minister Shimon Peres, Foreign Minister Yitzhak Shamir, the former prime minister, Finance Minister Yitzhak Modai and Economic Planning Minister Gad Yaacobi.

Mr. Peres and Mr. Yaacobi are members of Israel's Labor Party, while Mr. Shamir and Mr. Modai belong to the rival Likud bloc.

The committee will reportedly decide on specific cuts by the end of this week.

At a news conference, Mr. Modai called the proposed $1-billion budget cut "an opening move" in the new government's attempt to stem Israel's 400 percent annual inflation rate and overcome its balance of payments and foreign debt problems.

Mr. Modai did not say what spending cuts he had in mind, and he refused to say whether two measures widely anticipated by the Israeli public — tax increases and a currency devaluation — were part of the government's austerity program.

However, the finance minister did make clear that Israel expects significant help from the United States in overcoming its economic problems.

He said that when Mr. Peres travels to Washington to meet President Ronald Reagan — possibly as early as next month — he will take a "full economic plan" and will expect Washington to "lend a helping hand, as it has already offered."

Reagan administration officials have said they are willing to support an emergency economic aid package for Israel, but only if it is accompanied by basic reforms in the Israeli economic system.

The amount of emergency aid being discussed in Israel ranges from $700 million to $1 billion, over and above the $2.6 billion in routine economic and military assistance that Israel is due to receive in the fiscal year that begins on Oct. 1.

The United States has never made public what reforms it would consider satisfactory.

However, one clear target for possible reform measures is Israel's elaborate system of indexing, which protects the public from the worst effects of inflation by providing automatic cost of living wage increases that are linked to the constantly rising consumer price index.

Last month, for example, the consumer price index rose by a record 16.5 percent, triggering an automatic 13.2 percent increase in the wages of most Israelis this month.

Similar mechanisms, which Mr. Modai has already publicly pledged to preserve, protect the savings of Israelis from the ravages of inflation by linking the value of savings accounts to the U.S. dollar rather than the Israeli shekel.

Achieving fundamental changes in this system is likely to bring the unity government into conflict with the Histadrut, Israel's giant trade union federation that represents a majority of the country's workers.

The Histadrut is closely aligned with the Labor Party, and gaining its acceptance of basic changes in the economic system may provide one of the first tests of Mr. Peres's leadership.

■ Pledge to Leave Lebanon

Defense Minister Yitzhak Rabin said Sunday that the Israeli government planned "to put an end to our military involvement in Lebanon," The Associated Press reported from Jerusalem.

He gave no timetable for a withdrawal of troops from south Lebanon, saying only that Israel first must secure its northern border from guerrilla attacks.

"I think this goal can be achieved not in terms of years but in a much shorter period. More than that I would not say now," Mr. Rabin said in a speech to the U.S.-based United Jewish Appeal.

Mr. Rabin, a former Labor prime minister, said that Israel viewed confrontation with Syrian forces in eastern Lebanon as the "real threat."

Israel has been training and equipping a 2,000-member militia, the South Lebanese Army, to take its place and protect northern Israeli towns that once were the target of guerrilla rockets and bombs.

But most military observers believe the Lebanese force, made up primarily of Christians, will not be able to control the Shiite Moslem-dominated south for at least another year.

U.S. Links Extra Aid To Israel Austerity Plan

By Bernard Gwertzman
New York Times Service

WASHINGTON — Reagan administration officials said that the United States was ready to help Israel out of its precarious economic situation, but only if the Israelis first produced a drastic austerity program.

In commenting on the newly announced Israeli coalition government, the officials said Friday that they expected early visits here from many Israeli leaders, who can be counted on to seek an increase in American aid from the record $2.6 billion in grants expected for the 1985 fiscal year.

These visitors will include, they said, Shimon Peres, the Labor Party leader who will serve as prime minister for the first 25 months of the new government's term; Yitzhak Shamir, the Likud bloc leader who will be deputy prime minister and foreign minister and then switch jobs with Mr. Peres, and Yitzhak Modai of the Likud bloc, who will be the finance minister for the first 25 months.

Given the ideological gulf that separates the members of the coalition and the agreement to shift top jobs after two years, U.S. officials said they did not expect any progress soon on the long-standing diplomatic stalemate on Arab-Israeli peace moves. But they said they did anticipate that the coalition would be able to take steps to ease the economic crisis.

The Israeli inflation rate has soared to nearly 400 percent, and the nation has a foreign debt of $23 billion. The U.S. aid, which is given without Israel having to repay any of the new grants, barely covers Israeli interest payments on past loans.

Israeli officials and economists have been saying in recent weeks that Israel will have to request another $700 million in economic aid above and beyond the $2.6 billion allocated for the 1985 fiscal year. But administration officials have said they will resist Israeli efforts to obtain additional aid until there is agreement on an austerity plan.

Mr. Modai is due in Washington this week for the annual meeting of the International Monetary Fund, and Israeli officials said he would begin discussions with the Americans then. Mr. Modai initiated talks on economic issues in Israel Friday with Mr. Peres and Gadai Yaacobi, the Labor Party's top economist, who is minister of planning in the government.

Mr. Shamir is expected in New York on Sept. 22 or 23 for the opening of the United Nations General Assembly. He is due to speak on Oct. 3 and is likely to meet with President Ronald Reagan, who will be in New York on Sept. 23 and 24, a State Department official said.

Mr. Shamir also is likely to meet with the secretary of state, George P. Shultz, who, as an economist, has been concerned for some time over Israel's seeming inability to tighten its economic belt. Last year he set up a special task force to prepare ideas for handling Israel's economic problems.

Mr. Peres is expected to go to Washington later in October.

INSIDE

TOMORROW

Life in a Vietnamese "re-education" camp can vary from difficult to extremely harsh, according to former inmates.

Returning to Arnhem 40 Years After Battle

Reuters

ARNHEM, The Netherlands — U.S. Army veterans parachuted Sunday to fields they first touched 40 years ago, opening a weeklong commemoration of the battle of Arnhem, the Allies' failed attempt to smash German forces in the Netherlands.

The nine-day operation, code-named Market Garden, began Sept. 17 as the Allies tried to open the way to Germany's industrial heart three months after invading Europe.

The commemoration, which began with Sunday's parachute jumps and an air show near Nijmegen, 12 miles (20 kilometers) south of Arnhem, is intended as a major memorial to the operation, since this 40th anniversary may be the last that many veterans will be able to attend.

It ends with a ceremony next Sunday due to be attended by Prince Charles of Britain, Queen Beatrix of the Netherlands, Cardinal Jozef Glemp of Poland and U.S. and British soldiers who took part.

Sunday's show at "Little America," one of the main landing fields used in the operation, included about 60 parachute jumps by U.S. veterans of Market Garden and members of the present U.S. 82d Airborne Division.

In 1944, approximately 35,000 U.S., British and Polish troops landed by glider or parachute at drop zones along a 100-kilometer corridor that stretched north behind German lines from the Belgian border to Arnhem on the Rhine.

They were to secure bridges over the many defended waterways crossing the Netherlands, and in the words of their leader, Lieutenant General Frederick Browning of Britain, "lay a carpet of airborne troops over which our ground forces can pass."

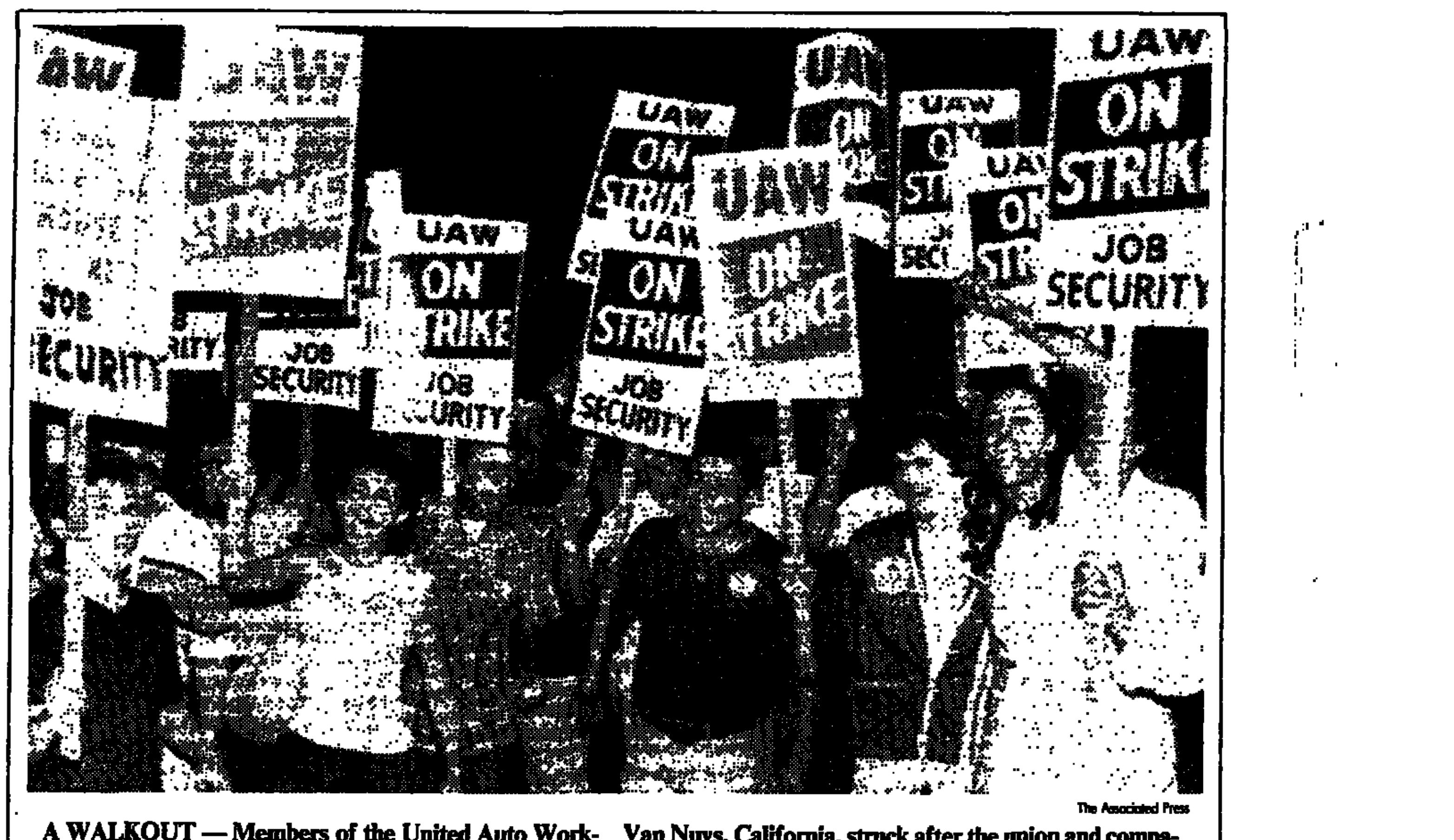
But after nine days of fighting against strong German resistance, the British 2d Army was still a few miles short of Arnhem and the isolated troops there could hold out no longer.

The operation established a long salient jutting into German occupied territory, but failed to cut off the western Netherlands from the German Reich.

Of about 10,000 men of the British 1st Airborne Division who were dropped at Arnhem, only some 2,200 returned through the enemy fire sweeping the Rhine, the last main river barrier between the Allies and Germany. They had been expected to hold the main highway bridge at Arnhem for two days, but encountered two German Panzer divisions, which happened to be refitting in the area.

Only 600 men under John Frost, then a lieutenant colonel, reached the bridge, where they fought until their ammunition ran out four days later. Later this week, Major General Frost will lay a wreath on the bridge, which now officially bears his name.

Farther south, men of the U.S. 504th Parachute Regiment crossed the Waal River in canvas boats under fire to secure Nijmegen's bridges, but were unable to beat back the stronger German forces.



The Associated Press

A WALKOUT — Members of the United Auto Workers cheered as colleagues at the General Motors plant in Van Nuys, California, struck after the union and company failed to reach agreement on a new contract. Page 17.

Gloomy Mondale Camp Pins Hopes on Debates

By Howell Raines and Phil Gailey
New York Times Service

WASHINGTON — In the first two weeks of the general election campaign, the performance of Walter F. Mondale and his staff has created a mood of deep pessimism among the Democratic Party's leaders, elected officials and strategists.

On the other hand, Mondale campaign officials feel that President Ronald Reagan's strategists have handed them an opportunity for a dramatic turnaround by tentatively agreeing to two nationally televised debates next month. These officials also deny that their campaign is in disarray.

Even so, more than a dozen political professionals at the local, state and national levels expressed doubts in interviews about Mr. Mondale's personal appeal, the management of his campaign and an electoral strategy that has the former vice president spending large amounts of time in states that Mr. Reagan appears almost certain to carry.

They also expressed amazement that a Mondale team once called "the juggernaut" because of its organizational skills was now known for staging campaign events with sloppy advance work, dead microphones and small, listless crowds in which Mondale supporters were sometimes drowned out by Reagan boosters and anti-abortion pickets.

On Friday Mr. Mondale, described by aides as displeased and concerned, acted to correct his organizational problems by reassigning Michael Berman, who had been serving as campaign treasurer, to supervise the campaign's scheduling and advance teams.

Despite these problems, Mondale campaign officials said they had ended the week on a positive note by reaching a tentative agreement with the White House for Mr. Reagan to meet Mr. Mondale in debates Oct. 7 and Oct. 21.

In another attempt to energize his campaign, Mr. Mondale voiced more passionate and personalized criticisms of Mr. Reagan Friday, referring to him in a St. Louis speech as an "isolated president" conducting a "happy-talk campaign." Although he intends to continue his emphasis on issues, a senior adviser suggested, he is prepared to venture closer to the "fine line" between political criticism and personal attack.

Mondale campaign officials also called the poor crowds and garbled arrangements at some of last week's campaign events normal "start-up" problems.

And James A. Johnson, the campaign chairman, said raising such issues as the federal deficit and arms control would begin to work in Mr. Mondale's favor. "On issues, people agree more with Mondale than with Reagan," he said.

The comment underscored the central role the debates occupy in the Mondale strategy for coming back from a political deficit set at 13 to 14 percentage points in his own campaign polls and from 15 to 27 percentage points in independent polls.

Last week senior Mondale advisers brushed aside criticism of his

(Continued on Page 3, Col. 4)

Two Nonwhites Are Appointed to Cabinet in South Africa

By Alan Cowell
New York Times Service

JOHANNESBURG — South Africa's new president, Pieter W. Botha, has announced a cabinet that, for the first time in his country's history, includes nonwhites.

The two new nonwhite cabinet members are the Reverend Allan Hendrickse, leader of the Labor Party, which represents some people of mixed race, and Amichand Rajbansi, whose National People's Party is drawn from the Indian community.

Both parties achieved ascendancy in elections last month that were marked by wide abstentions and boycotts. They had pledged to try to change the apartheid system from within.

Both Mr. Hendrickse and Mr. Rajbansi have been given ministries without portfolio. Their critics said that the government's apparent unwillingness to confer specific responsibility on them suggested that their presence was little more than a token.

"We are starting a new dispensation, and I am going to act responsibly," Mr. Botha said Saturday in Cape Town when asked why he had not given portfolios to the nonwhite figures. "If I find a colored or Indian member capable of handling a portfolio, I will not hesitate to appoint him."

Mr. Hendrickse, who was once jailed by those who will now be his cabinet colleagues, and Mr. Rajbansi will be the only nonwhites on the "general affairs" cabinet, which will deal with all matters of national importance. Ultimate power lies with Mr. Botha, who holds potentially authoritarian powers.

The president said at a news conference that cabinet ministers would not all have to bear collective responsibility for decisions but would be obliged to tell their colleagues before making their dissent public.

"I will not allow a minister to go out without informing his colleagues and then making attacks on the cabinet from outside," he said.

The statement was directed principally against Mr. Hendrickse, who has been a vocal adversary of racial rule.

Under South Africa's new constitution, which went into effect Sept. 3, Parliament will be composed of three houses: one of 160 members for the country's 4.5 million whites; one of 80 seats for the 2.8 million people of mixed race; and a 40-seat chamber for the 800,000 Indians.

Each house will nominate its own cabinet for what are called "own affairs" — that is, the day-to-day running of matters such as education within the overall structure of racially segregated teaching.

Those cabinets, however, are subservient to the general affairs cabinet, made up almost exclusively of members of Mr. Botha's National Party, the traditional voice of the Afrikaners, who form the dominant white group.

Adding to the complexities of a system that is called unwieldy and expensive by its critics, a series of committees drawn from the three houses — and reflecting in their composition the numerical superiority of the whites — will seek consensus on disputed issues.

The new governmental edifice, its critics say, is an effort to co-opt nonwhites without surrendering Afrikaner power, while maintaining the basic premise of apartheid that government by racial distinction, under white tutelage, must be maintained.

The new Parliament offers no representation to blacks, who make up 73 percent of the population.

Mr. Botha repeated his pledge to give urgent attention to those black people living outside the nominally independent "homelands," to which blacks are consigned according to their tribe of birth. He did not, however, give details or suggest a role for black people reflecting the demography of the divided nation.

Mr. Botha's announcement seemed unlikely to appease radical blacks such as those in the bleak townships of Sharpeville, Sebokeng and Evaton, south of Johannesburg, who buried their dead from recent disturbances on Saturday under the surveillance of riot police.

In a further show of opposition to the new constitution on which the multiracial cabinet is based, six political fugitives remained sequestered in the British consulate in Durban, complaining about their treatment by British officials. The British have made it clear that although they will not evict the dissidents, they want the protesters to go away.

The six, all of them facing detention without trial for political activism if they leave the diplomatic sanctuary of the consulate, made it known that they would send an emissary, Zak Yacoob, to London to seek an audience with the foreign secretary, Sir Geoffrey Howe, and other senior officials.

Soviet Recalls Nazi Pact Before Talks With U.S.

By Serge Schmemann
New York Times Service

MOSCOW — The Soviet Union has recalled its 1939 nonaggression treaty with Hitler in language similar to that used in attacks on the Reagan administration. Diplomats speculated that Moscow might be preparing to explain its decision to deal with President Ronald Reagan.

The treaty, signed on Aug. 23, 1939, set the stage for Nazi Germany's attack on Poland and the start of World War II. It is rarely mentioned in the Soviet press. Neither is a Soviet-Nazi pact on friendship and frontiers that followed on Sept. 28, 1939.

Diplomats surmised that Moscow was deliberately drawing parallels to prepare the Soviet public for the announcement that Foreign Minister Andrei A. Gromyko is to meet with Mr. Reagan, a man reviled in the Soviet press as a warmonger, this month.

On Saturday, Tass, the government news agency, distributed a commentary that referred prominently to Sept. 28, 1939, as the date of the frontier pact. Sept. 28 is also the day that Mr. Gromyko is scheduled to meet with Mr. Reagan.

The meeting, though confirmed privately by Soviet spokesmen, has not been publicly announced here.

The commentary said the Soviet Union had no illusions about Hitler's plans and signed the treaties to gain time to consolidate its defenses. Nazi Germany ultimately moved against the Soviet Union in June 1941. The commentary also said that the nonaggression treaty with Hitler was necessary because Britain and France had failed to reach an accord with Moscow.

But what struck diplomats was the similarity in language with the stock phrases used against Mr. Reagan.

The Soviet commentary said that, in 1939, "international observers wondered how the U.S.S.R. could trust Hitler, who had never concealed his claims to military superiority, who had announced a 'crusade' against anyone who did not wish to accept voluntarily his 'Nazi way of life' and then, only for a time from purely tactical considerations, relaxed his anti-Soviet and anti-Communist rhetoric."

Substituting "Reagan" for "Hitler" and "American" for "Nazi" would produce a passage similar to many recent Soviet press attacks.

Moscow has accused Mr. Reagan of seeking military superiority and of waging a crusade against communism, and has described his avowed effort to improve relations as a tactical maneuver.

Elsewhere the Soviet commentary said that, in 1939, the Western nations had "widely advertised their readiness for negotiations with the U.S.S.R., but in fact had torpedoed the possibility of an accord that would be based on equality and undiminished security of the parties."

The references to "equality and undiminished security" echoed modern Soviet demands.

Apparently to make sure that the parallels were not missed, the commentary said, "The lessons of history should not be forgotten by those who 45 years later are again stepping on the slippery and precarious path of deceiving people."

Although the commentary, written by Anatoli Krasikov of the newspaper Sovietskaya Rossiya, could be taken as just another indirect sally against Mr. Reagan, diplomats thought that the mention of the Sept. 28 date and the notion that it was tactically viable to negotiate with an enemy were intended to place the Gromyko-Reagan meeting in a context consistent with current Soviet policy themes.

■ Mondale to See Gromyko

The Democratic presidential nominee, Walter F. Mondale, said Sunday that he will meet with Mr. Gromyko on Sept. 27 in New York, The Associated Press reported from Washington.

Hans-Dietrich Genscher

Minister's Rejection of German Unity Prompts Bonn to Complain to Rome

Reuters

BONN — West Germany told Italy Sunday that it had been deeply offended by a remark last week by the Italian foreign minister, Giulio Andreotti, rejecting a unified Germany as "pan-Germanism" and "something that must be overcome."

Foreign Minister Hans-Dietrich Genscher told the Italian ambassador, Luigi Ferraris, of West German dismay over an allied country's use of the term "pan-Germanism," the ministry said. He insisted that West Germany has "no territorial claims against anyone and we will not raise such in the future."

Mr. Genscher also said Italy had repeatedly joined other North Atlantic Treaty Organization countries in supporting Bonn's views on the German question, most recently in a NATO foreign ministers' statement last May in Washington.

NATO, he said, continued to support Bonn's political aim in working for a European peace that would allow the German people to achieve unity through self-determination.

The West German Constitution urges all Germans to strive for unity. Successive governments have stressed that despite the existence of the West and East German states, there is only one German nation.

The Italian prime minister, Bettino Craxi, appeared Sunday to be trying to play down the rift over Mr. Andreotti's statement, made last Wednesday. In a message to Chancellor Helmut Kohl, Mr. Craxi said that closer ties between the two Germanys were in the interests of the German people and the future of peace in Europe.

The message did not refer directly to Mr. Andreotti's statement that, although ties between East and West Germany contribute to peace, "pan-Germanism is something that must be overcome." Mr. Andreotti, a Christian Democrat, was speaking at an Italian Communist Party festival.

He also said: "There are two German states and two German states must remain."

The statement led Mr. Kohl, also a Christian Democrat, to express surprise Saturday that an Italian minister of his political persuasion had come out against a united Germany.

The opposition Social Democrats, however, applauded Mr. Andreotti's remarks.

"Andreotti has had the courage to say honestly and openly what our Western allies really think on the German question," Horst Ehmke, the party's deputy floor leader in the Bundestag, said Saturday.

Mr. Andreotti is due in Brussels Monday for a meeting of European Community foreign ministers. Mr. Genscher is also scheduled to attend the talks.

U.K. Miners' Strike: The Last Throes Or Renewal of a National Disease?

By Michael Getler
Washington Post Service

LONDON — "The business people are saying it isn't helpful," said a top aide to Prime Minister Margaret Thatcher.

"It just reinforces people's prejudices about our industry, especially among our competitors who love having those prejudices reinforced, and it's doing harm."

The official was talking about the picket-line violence and labor turmoil that have plagued Britain for much of this year and that threaten to revive an image this country has been desperately trying to shake: that of a strike-prone nation feeding its own economic and industrial decline.

The British economy has been growing quite well for the past few years, outpacing West Germany and France, and it is still growing. However, a bitter coal miners' strike now entering its seventh month, two dock strikes within two months and threats of other walkouts have not only slowed growth this year. They also have begun to raise questions about the long-term impact of the current unrest on the confidence of Britain's customers and future investors.

Talks between the National Union of Mineworkers and the state-run National Coal Board, which had been going on all week and were by far the longest of all the efforts to negotiate a settlement, broke down Friday.

In general, "there is, among foreign clients, a lot of concern that the U.K. is returning to its bad old labor-relations habits," said Gavyn Davies, a chief economist with Simon & Coates stockbrokers.

But Mr. Davies and other analysts say the labor and economic scene depends heavily upon "where you look at it from." Investors and customers inside Britain, and experienced outsiders who follow developments here closely, still are much more apt to view the underlying trends as positive, Mr. Davies said.

The miners' strike, for example, is rather widely seen as "probably the last, desperate throe" of mine union leaders "who are out of touch with the views of the majority of trade unionists in the country," said Alan Sked, a lecturer at the London School of Economics.

Although 1,100 delegates to Britain's Trade Union Congress, which represents the country's 10 million union members, voted overwhelmingly to support the miners early this month, actual support has been limited. Big unions such as those representing steelworkers and electrical-power workers have been sharply critical of the National Union of Mineworkers leader, Arthur Scargill, accusing him of trying to bring Britain to its knees.

Both dock strikes have been indirectly linked to support for the miners. But the first strike, which was virtually nationwide, was hastily settled after 10 days when it seemed about to collapse anyway because of angry truckers bottled up at English Channel ports.

Now, in sharp contrast to the earlier stoppage, about 40 percent of dockworkers have voted to keep working.

About 50,000 of Britain's 180,000 coal miners have also continued to work since the strike was called on March 12. They refuse to stop without a national ballot, which Mr. Scargill refuses to call.

Overall trade union membership has dropped 17 percent in Britain since it peaked in 1979 at 12.2 million. The mineworkers' union and state-run National Coal Board have not been able to bridge the crucial gap over when mines should be closed.

Of 150 coal pits, the coal board wants to close 20 that they argue are uneconomic, unprofitable, require big taxpayer subsidies and make British coal uncompetitive. It would mean the layoff of 20,000 workers. But the board has offered to do this through retirements or bonuses for leaving voluntarily.

Mr. Scargill demands that no mine should be closed until exhausted of coal. There are huge social costs to shutting down entire communities, putting miners out of work and ruling out a future in the pits for miners' children, he says.

The government, with considerable outside support, argues that such protection from economic factors is unreasonable.

Many Britons believe Mr. Scargill will never give in and that a settlement will have to come through pressure on him from elsewhere in the union. But the miners now talk of "General Winter" joining the battle on their side as cold weather approaches.

But Mrs. Thatcher will not waver, her aides say, from a determination not to let what she sees as militant unions stand in the way of making British industry more competitive. Within industry, the financial community and even opposition parties such as the Social Democrats, a Thatcher victory is viewed as essential.

"Financial markets don't like strikes," said Mr. Davies, "but there is a lot more concern that the miners don't win this one."

■ Dock Accord Reached

Britain's dock strike could end this week after agreement on Sunday between union leaders and the state-owned British Steel Corp. on coal shipments for fuel-starved steel plants hit by the six-month-old miners' strike, The Associated Press reported from London.

"In my opinion, the main reason for the strike has been removed," said the acting Scottish dockworkers' leader, John Hardie, following five hours of negotiations in Glasgow, Scotland. The accord has to be ratified by the Transport and General Workers' Union.

2 Ships Are Hit In Gulf Air Raids; Iran Is Suspected

The Associated Press

BAHRAIN — Two tankers, one Greek and the other South Korean, were hit Sunday in attacks by planes in the central Gulf, shipping sources reported here. The sources voiced suspicion that Iran was responsible.

Meanwhile, Arab radio stations in the Gulf said the defense and foreign ministers of the Gulf Cooperation Council had scheduled an emergency conference in Saudi Arabia on Tuesday to discuss means of protecting neutral waters against such attacks. The council groups Saudi Arabia, Kuwait, the United Arab Emirates, Bahrain, Qatar and Oman.

The vessels, identified as the Greek-owned, Liberian-registered Medheron and the South Korean-owned Royal Colombo, were both hit off the coast of Qatar. The sources reported three minor injuries to crew members aboard the Medheron.

The captain of the Medheron said the damage to his ship was extensive, but that it had not been disabled. The extent of the damage to the Royal Colombo, which was chartered by a Sri Lankan shipping company, was not immediately clear.

Sources speculated that Iran was responsible for Sunday's attacks for three reasons: Iran has carried out attacks in the same region, it occasionally has attacked ships bound for ports of Iraq's Arab allies, and Iraq usually claims its attacks immediately after they take place. There was no comment from either country.

WORLD BRIEFS

Argentina Wins Reprieve on Loan

NEW YORK (NYT) — The 11-bank advisory group on Argentina's foreign debt has declined to extend the repayment period on a $750-million loan that matured Friday. However, the group did not formally demand that the loan be paid back immediately, in effect granting Argentina a day-to-day extension.

Bernardo Grinspun, Argentina's economy minister, had said Friday that "we've informed the banks that we're not in a position to pay." The advisory group informed banks participating in the loan that interest would be calculated on a day-to-day basis "until we notify you of the contrary."

Argentina joined 10 other heavily indebted Latin American nations on Friday in formally requesting direct talks with the developed nations on restructuring their debt, which totals more than $330 billion. By Sunday afternoon there had been no response, although the United States and Britain had previously rejected the proposal.

Iranian, Iraqi Pilgrims Clash; 1 Dead

BAHRAIN (Reuters) — Saudi Arabia says an Iranian was killed and several Iraqis injured when fistfights and stone-throwing broke out between pilgrims from Iran and Iraq last week in the Moslem holy city of Medina.

Iran said it had protested to Saudi Arabia. The Saudi press agency, quoting an Interior Ministry source, said members of both groups were arrested but later released.

Saudi Arabia, which admitted more than 150,000 Iranians for this year's pilgrimage, supports Iraq in its four-year war with Iran but also has been seeking a peaceful settlement.

Three Iranians Die in Hijack Attempt

BAGHDAD (Reuters) — Iraq said Sunday that three Iranians were killed by Iraqi guards while trying to hijack an Iraqi Airways jetliner on a flight from Cyprus to Baghdad on Saturday.

Abdal-Jabbar Abdal-Rahim al-Asadi, the Iraqi transport and communications minister, said the three were carrying false passports. He described the incident as an Iranian attempt to retaliate for recent hijackings of Iranian planes to Iraq.

The Iraqi News Agency, quoting crew members, said that the three hijackers were seated in the front, center and rear of the Boeing 737 and that an hour after takeoff one of them burst into the cockpit waving a paper-wrapped bottle and shouting that it was a hand grenade.

A guard said, "One of our men shot him with one bullet, which killed him on the spot, while the other Iraqi security men attacked the other two hijackers and killed them." He said nobody else was hurt and the plane was undamaged.

Saudi Visitor Shot to Death in Spain

MARBELLA, Spain (AP) — An unidentified gunman shot and killed Nasser Abdul Aziz, 32, a Saudi Arabian engineer, as he sat at a crowded cafe Friday. A telephone call to a news agency in Beirut Saturday claimed responsibility in the name of Islamic Jihad.

The same group had claimed the bombing of the U.S. Embassy in Beirut in April 1983 and the truck bombs that killed more than 300 U.S. and French servicemen in Beirut last October.

Demanding the release of two Lebanese arrested earlier this month in Madrid in connection with the shooting of a Libyan diplomat, the caller said the group was "ready to move to the heart of Washington, New York, San Francisco and other cities in the U.S" to deliver "a painful blow."

French Force-Feed Spanish Basque

PARIS (Reuters) — A Spanish Basque separatist who has been on a hunger strike with seven compatriots for more than four weeks is being force fed by doctors, a senior official of the Justice Ministry said.

Jean Favart said Saturday that staff at the Fresnes prison hospital near Paris decided to start feeding Francisco Xavier Lujambio Galdeanu, 29, Friday night because his condition was worsening. A spokeswoman for the hunger strikers' support committee said the decision was made against the will of the detainee, who began his action with his companions on Aug. 8.

They are protesting a court ruling that affirmed the extradition of seven of them wanted in Spain on murder and assault charges, including Mr. Lujambio, who is accused of killing two Civil Guards in May 1980. The French government has said it will not decide on the extradition until the Court of Appeals has heard the case, probably next month.

France to Sell Missiles to Jordan

AMMAN, Jordan (UPI) — France will sell Jordan surface-to-air missiles to replace Stingers that had been expected from the United States, Defense Minister Charles Hernu announced Sunday.

President Ronald Reagan bowed to pressure from Congress and canceled the planned sale of 1,613 shoulder-fired Stinger anti-aircraft missiles after King Hussein accused the United States in March of being biased in favor of Israel.

Mr. Hernu acknowledged at a news conference that France had already provided Jordan with 33 French-built Mirage fighters and that agreement has been reached for the delivery of 13 additional planes. A French-Jordanian military delegation has been formed to study Jordan's requests for French arms and ways in which they can be met, said Mr. Hernu, who held talks with Prime Minister Ahmad Obeidat earlier in the day.

20 Israelis Go on Trial for Terrorism

JERUSALEM (Reuters) — The trial of 20 alleged anti-Arab Jewish terrorists opened Sunday with the prosecution charging that the group planned to blow up the Al Aksa Mosque on Temple Mount in the heart of Jerusalem, one of Islam's holiest shrines.

The prosecution said the plot had advanced to the point that surveillance work was completed and the explosives were prepared.

The 20 Israelis were arrested in April after police thwarted a scheme to blow up five Arab buses. They are accused of numerous anti-Arab crimes, including the murder of three Palestinian college students and three 1980 car bomb attacks on West Bank mayors.

Pope Meets Ukrainians in Canada

WINNIPEG, Manitoba (AP) — Pope John Paul II, on the eighth day of his 12-day visit to Canada, urged immigrant Ukrainians at a Ukrainian Catholic cathedral Sunday to preserve their heritage while adapting to their new country.

On Saturday in Toronto, the pontiff offered prayers for economic justice at a gathering of 300,000 people, saying modern technology must "truly serve every man, woman and child."

Also on Saturday, the pope visited a shrine honoring 17th-century missionaries slain by Indians and told a crowd of 80,000 that it was time for a reconciliation between "the original peoples and the newcomers to this continent."

Russians Facing Crisis In Energy, Report Says

The Associated Press

WASHINGTON — The Soviet Union, the world's largest oil producer, is approaching an energy crisis that is sure to strain its political and economic base, according to a study released Saturday.

And while its vast oil, natural gas and coal reserves will enable it to remain a net energy exporter well into the 1990s, Moscow cannot continue to maintain the growth its once-cheap energy fueled without major sacrifices, the study said. It was written by Ed A. Hewett of the Brookings Institution, a Washington-based research center.

Mr. Hewett, noting the Reagan administration's failed attempt to prevent Moscow from getting Western equipment for a natural gas pipeline to Western Europe, concluded there is little the United States can do about Soviet energy developments.

"The easy availability of relevant energy technologies and abundant supplies of state-supported and private export credits from Europe and Japan relegate the United States to primarily 'observer status'," he wrote.

But Mr. Hewett also dismissed the theory, offered in 1982 by Defense Secretary Caspar W. Weinberger, that the Soviet Union is running out of energy and, in Mr. Weinberger's words, might "move down through Iran, Iraq and Afghanistan and try to seize the oil fields" of the Middle East.

That belief gained widespread acceptance on the basis of a 1977 prediction by the Central Intelligence Agency that the Soviet Union would shift from a net exporter of energy to a net importer of 3.5 million to 4.5 million barrels per day by 1985.

The CIA withdrew the prediction almost immediately after it was released, saying its assumptions were faulty. Nonetheless, the estimate was used to push much of the Carter administration's energy program through Congress.

The Soviet Union, with 40 percent of the world's proven and probable oil and natural gas reserves, probably will never need the Middle East as an energy source, Mr. Hewett said.

However, noting the CIA's predictions that the Russians would not meet their 1980 production target of 12 million barrels of oil a day and that output would begin declining soon afterward, he said the agency's estimates "were not that far off."

"Oil output will probably stagnate in the Soviet Union, but energy output will not," Mr. Hewett said.

According to recent CIA figures, the Soviet Union's crude oil production in 1983 was a record 11.95 million barrels per day, compared with 8.68 million barrels by the United States.

The Russians, who use only three-fourths of their production themselves, have traditionally relied on oil as a major foreign policy tool. Its East European allies, in exchange for their loyalty, are getting two-thirds to three-fourths of their oil from Russia at subsidized prices estimated to have cost the Soviet economy $17.8 billion in 1980 alone.

At the same time, the Soviet Union has been selling up to 1.75 million barrels of oil a day to the West for nearly 70 percent of its total foreign currency earnings. The windfall from a doubling in world oil prices in 1979-1980 is credited for enabling them to continue to import billions of dollars in food each year without having to borrow from Western banks.

Mr. Hewett contended that the Russians have been able to continue this trend only by overinvesting in energy development, including a huge expansion of natural gas output as a substitute for oil once used within the country but now devoted to exports.

"In effect, the Soviets are borrowing against future collective consumption," Mr. Hewett told reporters. "But they're not going to be able to do it very much longer."

Poland Appoints Catholic Activist As Envoy to Paris

The Associated Press

WARSAW — The Communist government, in a step that an official described as unprecedented, has appointed a Roman Catholic political activist as ambassador to France.

An assistant at the government spokesman's office said that the Council of State's naming Thursday of Janusz Stefanowicz marked the first time in 40 years of Communist rule in Poland that a Catholic politician had been nominated as ambassador. Such posts are usually filled by Communist Party members.

Mr. Stefanowicz, 51, is a Catholic journalist and deputy in the Sejm, or parliament. He is also vice chairman of the PAX Catholic Association, a small lay organization that is allied with the ruling Communist Party. Poland's Roman Catholic episcopate has frequently criticized PAX's activities.

5 Americans Are Seized By Russians Off Alaska

United Press International

NOME, Alaska — The Soviet Union has seized five Americans and their 120-foot (36.5-meter) vessel in Arctic waters and detained them in the eastern Soviet Union, the State Department said Saturday.

The seizure of the men and their vessel, which is used to deliver water and fuel to remote areas, occurred at midweek but the reason for the incident was not known, according to Joseph Reap, a State Department spokesman.

The men, all from Homer, Alaska, were being held near the Bay of Providence in the Soviet Union, he said. "The Soviets informed the State Department of the seizure through the U.S. Embassy in Moscow."

It was not known if the vessel, the Frieda K., strayed into Soviet waters but the last radio contact came from "well within American waters," officials said.

"We have been in touch with the Soviets and we are attempting to establish contact with the Americans but we were told not to expect anything along those lines" until early this week, Mr. Reap said.

In Juneau, Alaska, Petty Officer Mike Hilley of the Coast Guard said, "We don't know why, where or how this happened."

Petty Officer Hilley said the five men were returning from Point Lay on Alaska's North Slope, "well above the Arctic Circle," to Nome, which is about 375 miles (600 kilometers) to the south, when the seizure occurred.

The vessel had to pass through the Bering Strait, where the Soviet Chukotski Peninsula and the Seward Peninsula of Alaska are only 50 miles apart.

There were reports from Nome that the purpose of the vessel's trip to Point Lay was to refuel ships monitoring seismic activity off the Alaska coast.

The last reported detainment of Americans off the eastern Soviet coast came in July 1983, when seven activists of the environmental group Greenpeace were held for several days after they purposely entered Soviet waters in the Bering Sea west of Alaska to protest whaling operations by the Russians.

Four of the men were identified as Tab Thoms, the captain of the Frieda K.; his brother, Tate Thoms; Mark Halpin, and Robert Miller.

A brother of one crewman, Ken Halpin, 23, said the crewmen, aged 18 to 25, had been reported "alive and well" by U.S. government officials.

Ballot Gives Young Centrist Parties New Power in Moroccan Legislature

By Edward Schumacher
New York Times Service

RABAT, Morocco — The new Chamber of Representatives, Morocco's parliament, will be dominated by young centrist parties, according to election results.

King Hassan II, under the country's "constitutional monarchy," will still form the next government as he pleases. But political leaders and government officials said the king was certain to take the results of the voting Friday into account as the country moves away from its traditionalist, independent leaders toward a generation of professional technical specialists.

The power of the king remains largely unchallenged, but elections are regarded as a way to sound public opinion and as a step in the slow evolution to democracy.

In a race among a dozen parties, the Constitutional Union, a centrist middle-class party formed last year, won nearly a quarter of the votes, according to the returns released Saturday.

The six-year-old National Assembly of Independence, a modernist party dominated by professionals and the upper class, placed second with 17 percent, while a splinter group of the assembly, the National Democratic Party, won 9 percent.

The growth of the new parties came largely at the expense of the Istiqlal, a traditional monarchist party, which led Morocco to independence from France in 1956. The party won 15 percent of the votes. Almost two-thirds of Morocco's 21 million people are less than 25 years old and find little relevance in the party's concerns.

The Socialist Union of Popular Forces, the main leftist opposition, won only 12 percent of the popular vote, but the concentration of their votes in urban areas more than doubled their seats in parliament, making them the third largest party represented.

Moroccans speculated about whether the king might turn to a center-left government of Socialists and the two centrist parties that placed first and second in the vote.

The economy was the major issue. Three parties, despite divergent philosophies, have demanded austerity measures to combat unemployment of more than 25 percent and underemployment and to pay an $11-billion foreign debt. More than 100 people died in riots in January that were set off by rumors of price increases.

The government said 67 percent of the country's registered voters turned out for the election for two-thirds of the 306 seats in parliament. The remaining seats will be selected by local councils and professional associations.

Despite charges of some irregularities, the consensus among political leaders was that the election was the most honest ever, a turnabout from the last parliamentary election in 1977, when the government parceled out seats beforehand.

AMERICAN TOPICS

New Morals Text Has Moral Problem

Publication next month of a book on moral philosophy may be canceled because the author supplied a bogus letter that gave the book a ringing endorsement. The letter, purportedly from Robert Nozick, chairman of the philosophy department at Harvard University, described the book by Timothy J. Cooney as "truly brilliant" and the author as "an extremely original thinker."

Arnold Newman/1972
Jason Epstein

"I not only didn't say any of those wonderful things," Mr. Nozick said, "I never read a single page of the book."

"It's a dilemma, because the book is absolutely brilliant and I had pretty much decided to publish it before the author sent me that so-called letter from Nozick," said Jason Epstein, editorial director of the Random House publishing house.

The New York Times reported that repeated attempts to reach Mr. Cooney for comment were unsuccessful. Once an aide to former Mayor Robert F. Wagner of New York, Mr. Cooney was co-author in 1971 with James Haughton of the book, "It's Up to You: A Guide to Changing the System." The title of his new book: "Telling Right from Wrong."

New York Putting Squeeze on Lemons

New York state's "lemon law," requiring automobile dealers to reimburse customers who are sold defective vehicles, went into effect a year ago this month. Government, consumer and industry representatives all say it seems to be working.

The law extends all manufacturers' written warranties to 18,000 miles (29,000 kilometers) or two years, whichever comes first. It defines a "lemon" as any car that, during the warranty period, has been in the repair shop four times with the same problem or has been out of service for 30 days or more. New Jersey and Connecticut have similar laws.

"My impression is that it's helping consumers," said Richard M. Kessel of the New York State Consumer Protection Board. "Car dealers are being more cooperative and consumers are getting more satisfaction faster."

Ned A. Schwartz, manager of the Ford Motor Company's owner relations division, said of the lemon law, "I think we could live without it, but I think we're also living quite nicely with it."

Short Takes

The state of Maryland will impose a moratorium Jan. 1 on fishing in state waters for **striped bass**, or rockfish. The ban, expected to last at least four years, applies to both commercial and recreational fishermen. Acid rain, disease and continued fishing have combined to reduce the catch of striped bass, once the Chesapeake Bay's most important game and table fish, from 5 million pounds a year in 1970 to less than 400,000 pounds. Some Bay fishermen decry the ban; others grudgingly agree that it is necessary.

□

Seven years of court battles to preserve the oldest commercial building in downtown Washington ended last week when wreckers razed the **Rhodes Tavern**, built in 1799.

□

Notes on People

Miss Utah, Sharlene Wells, 20, a Mormon from Salt Lake City who says she has "absolutely no skeletons in the closet," was crowned **Miss America 1985** on Saturday night in Atlantic City, New Jersey, ending the most scandalous of the pageant's 63 years. "I'm a Mormon from Utah and that should say it all," Miss Wells said. Her crowning ends a year that saw Vanessa Williams, 21, of Millwood, New York, become the first black to win the contest and the first woman to relinquish the crown after Penthouse magazine published nude photographs of her in its September issue.

UPI
Sharlene Wells

□

James Meredith, 51, who 22 years ago was the first black to enroll at the University of Mississippi, has become a visiting professor of Afro-American studies at the University of Cincinnati.

□

Jimmy Connors, the tennis star, has bought the ranch adjoining President Ronald Reagan's in the hills above Santa Barbara, California.

□

Senator Jake Garn, Republican of Utah, has asked the National Aeronautics and Space Administration to include him on a space shuttle flight. Mr. Garn, 51, is a former navy pilot with more than 10,000 hours of flying time in jets.

House Panel Backs Delay Until Spring On MX Vote

By Jonathan Fuerbringer
New York Times Service

WASHINGTON — The House Appropriations Committee, after narrowly defeating a restriction on the MX missile program, has approved a postponement of any vote on its production until spring.

The delay, originally opposed by the Republican-controlled Senate and the Reagan administration, is now expected to be a key element in a final compromise on the 1985 military budget. On one side are House Democrats, and on the other side are the White House and Senate Republicans.

Thomas P. O'Neill Jr., the House speaker, and Howard H. Baker Jr., the Senate majority leader, worked on such a compromise last week and hoped to reach an agreement this week.

The full House had previously voted for a similar delay in passing the military authorization bill, which establishes programs. The Appropriations Committee votes on financing for the programs.

The restriction on the MX program had been proposed by Representative Joseph P. Addabbo, the New York Democrat who heads the Appropriations Committee's defense subcommittee.

The proposal, defeated by one vote on Friday, would have made approval of new MX missiles next year subject to two new votes in each house of Congress, one for authorization and one for appropriation.

The roll-call vote was 24-23, with nine Democrats and 15 Republicans opposing Mr. Addabbo. Voting in favor were 21 Democrats and two Republicans. Ten members of the 57-member committee did not vote.

The action on the MX came as the Appropriations Committeee approved a form of appropriation designed to continue government financing into the 1985 fiscal year, which begins Oct. 1, if individual appropriation bills have not been approved.

Nicaragua Seeking MiGs

(Continued from Page 1)

for Nicaragua to obtain MiG airplanes."

The new military airport is at Punta Huete, 13 miles (21 kilometers) north of Managua, the capital.

Nicaragua has said it has been training pilots abroad for more than a year. It has declined to say where they were training but some reportedly have been sent to Bulgaria.

Mr. Ortega reaffirmed Nicaraguan declarations that the planes would be used only for self-defense. He said they were needed to help Sandinist ground forces combat anti-government guerrillas.

Mr. Ortega acknowledged that the United States might raid the airport if Nicaragua obtained new warplanes, saying, "We have to be prepared for the worst possibility."

While Nicaraguan deployment of the planes risked incurring a U.S. attack, he said, "it would be more of a risk to give up being free, to give up being independent."

■ **Cubans Reported Killed**

Stephen Kinzer of The New York Times reported from Santa Clara, Nicaragua:

A resident of Santa Clara said that four Cuban advisers were killed in a Sept. 1 raid on the training base by rebel guerrillas.

Two Americans, identified by the United States as mercenaries, died in the same raid.

Nicaraguan officials said three Nicaraguan children and an adult civilian were killed by the rebels.

However, a relative of one of the children said that when he went to pick up her body he saw four bodies in uniform. "We were told they were Cubans and that they would be flown back to Cuba to be buried," he said.

United Press International
Walter Mondale and Ronald Reagan at a Washington dinner, where both were speakers.

Reagan and Mondale Agree for Once In First Joint Appearance of the Race

By Jack Nelson
Los Angeles Times Service

WASHINGTON — In their first joint appearance of the 1984 campaign, President Ronald Reagan and Walter F. Mondale suspended their attacks on each other long enough to stress family and moral values at an Italian-American dinner.

With Vice President George Bush and the Democratic vice presidential candidate, Geraldine A. Ferraro, also in attendance, Mr. Mondale made a spirited defense of his running mate, an Italian-American, whose financial affairs and views on abortion have enveloped her campaign in controversy in recent weeks.

She has been "tested as few American political figures have ever been," Mr. Mondale said, in remarks Saturday before the National Italian-American Foundation, which Ms. Ferraro serves as a board member. "She's been the object of intensive and legitimate scrutiny" but also of "smears," he said.

"I don't have to tell the Italian-American Foundation what it means to be tarred by ethnic innuendo," he added. "But I do want to tell you that I have never met a political leader as tough and as honorable as my running mate, Geraldine Ferraro."

Mr. Reagan in his remarks did not mention Ms. Ferraro, but he cited as an example of Italian-American achievement the case of an Italian immigrant who came to the United States and put his son through medical school while working as a milkman. The son became a prominent surgeon, said Mr. Reagan, and "saved the life of a president of the United States who had been shot.

"I know this story because I was the patient," Mr. Reagan declared. "Dr. Joseph Giardano is the surgeon. The hero of the story is Joseph Giordano Sr., retired milkman and inheritor of the Italian-American tradition."

Dr. Giardano is head of the trauma unit at George Washington University Hospital, where Mr. Reagan was treated after the attempt on his life in 1981.

The extraordinary appearance of all four of the candidates at the same function underscored the importance both campaigns attach to the 12 million Italian-Americans in the election. The dinner was the third Italian-American event that Mr. Reagan has attended in recent weeks.

Most of the Italian-Americans are Catholics, who have traditionally leaned toward the Democratic Party. But Mr. Reagan got a large share of the Catholic vote in 1980, and his strategists say that because of his opposition to abortion and support of tuition tax credits for parents of students in parochial schools, they expect him to do well this year.

The president emphasized the importance of the Italian tradition of faith and family and said, "That is why we have tried to gear so many of our efforts toward the family — the prime generator of life and human virtues."

If Mr. Reagan and Mr. Mondale avoided exchanging political salvos during the dinner, it seemed likely to be a temporary truce. Only hours before he spoke at the dinner, Mr. Reagan accused Mr. Mondale and Ms. Ferraro of proposing economic policies that would erect "a giant stop sign," bringing U.S. economic growth to "a screeching halt."

In his regular Saturday radio address, which has been paid for by his campaign committee since he became a candidate for re-election, Mr. Reagan said that whereas Mr. Mondale's plan for reducing the budget deficit provided for "the biggest single tax increase in history," the Reagan administration offered "new opportunity, lower tax rates, more jobs, rising take-home pay and a brighter future for everyone."

In a similar partisan vein earlier Saturday, Ms. Ferraro attacked Mr. Reagan's foreign policies during a day of campaigning in Syracuse and Elmira, New York.

The United States, she declared, should spend more on education and less on pursuing military goals in Central America and Lebanon.

■ **Survey Shows Reagan Lead**

A survey by The Associated Press showed Mr. Reagan leading Mr. Mondale in at least 41 states, while the Democratic challenger had a clear lead only in the District of Columbia.

Mr. Reagan held an edge in 41 states with 420 electoral votes, far more than the 270 needed for election on Nov. 6, according to the survey. Mr. Mondale was comfortably ahead only in the District of Columbia, with three electoral votes, the survey indicated.

The other nine states — Hawaii, Illinois, Massachusetts, Maryland, New York, Oregon, Rhode Island, West Virginia and Wisconsin — were rated toss-ups, accounting for 115 electoral votes.

AP correspondents in all 50 states assessed available poll data and talked with political experts to make the evaluations. Voters do not directly elect the president; they cast ballots for presidential electors, apportioned among the 50 states and the District of Columbia, who officially vote for president.

Mondale Camp Looking to Debates

(Continued from Page 1)

fact-crammed speeches and low-key campaign events, saying the "pizzazz factor" was being consciously sacrificed to laying down an "issues foundation" from which Mr. Mondale could swing for a knockout in the debates.

But with the campaign leaders almost openly acknowledging that they were down to a last-resort strategy that hinged largely on a Reagan political collapse, another kind of debate intensified. This one was within the Democratic Party, among people mystified that a candidate and organization once regarded as the most disciplined and efficient in recent political history was off to such a fumbling start.

Most prominent Democrats observed the protocol against publicly criticizing a candidate they hoped to see regain his footing. But the private criticism was sharp and prolonged, even within the council of party elders convened by Robert S. Strauss, the former party chairman, to provide broader political advice for the troubled campaign.

"I've decided to stop talking to reporters for the remainder of the campaign," said a Democratic media consultant, a veteran of past presidential campaigns. "Anything I could say honestly at this point would only be damaging to Mondale, so I'm just going to keep quiet."

But some, including state party leaders, feel that the Mondale campaign, which has only 28 field offices, has failed to activate the Democratic network.

The symptoms of inactivity extended from Tennessee, where Mr. Mondale was forced to admit in a television interview that he had neither a campaign chairman nor a headquarters in Memphis, to Maine, where a popular governor had been waiting for a call he did not get.

"I don't think they have a game plan," said David Cheever, an aide to Governor Joseph Brennan of Maine, one of Mr. Mondale's earliest supporters. So far, Mr. Cheever said, no one from the Mondale campaign has got in touch with the governor, who was described as eager to help but puzzled.

"One of the longest-running presidential campaigns in history has been Walter Mondale's," said a Democratic strategist. "Yet for reasons that no one can explain, it appears they are beset with amateurism and basic nuts-and-bolts problems in the general election that they didn't have in the primaries. It looks like they've been trying to keep Mondale busy while they try to figure out how to use him."

Campaign officials insist that Mr. Mondale is not depressed, given his torpid performance in most stump speeches last week and a barrage of polls showing a dramatic decline in his ratings on the leadership issue. "You're not going to make him a pizzazz candidate," said Robert G. Beckel, Mr. Mondale's campaign manager. "Where he's at his best is when he's in a fight, and he's fighting for the average American."

West Germans Protest At Rhein Main Air Base

The Associated Press

FRANKFURT — About 500 people chanting anti-American and anti-NATO slogans demonstrated outside the entrance of the U.S. Rhein Main Air Base on Saturday, Frankfurt police said.

The runway, which opened in April, is opposed by environmentalists because more than 300,000 trees were felled to make room for it. Opponents of the North Atlantic Treaty Organization also are against the runway because, they say, it was built primarily for use by military aircraft.

CIA Said to Circumvent Limit on Aid to Contras

(Continued from Page 1)

has raised questions about possible cooperation between the Defense Department and the CIA to circumvent an explicit congressional ban on supplying arms and equipment beyond the $24 million specifically appropriated to the CIA for aiding the rebels during this fiscal year.

The Cessna-O2A is a light airplane built primarily for visual reconnaissance and target identification. The plane is relatively easy to maintain and can be landed on primitive runways as short as 449 feet (136 meters).

In letters sent Thursday to Secretary of Defense Caspar W. Weinberger and the CIA director, William J. Casey, Senator Jim Sasser, Democrat of Tennessee, requested an explanation of what happened to the three air force Cessna-O2As that disappeared from government records. He charged that "transfer of surplus military equipment at no cost to support contra operations would ... represent an outlay in excess of the CIA legal spending limit."

The Defense Department responded Friday by informing Mr. Sasser's office that top-secret documents show that the planes were transferred to the Joint Chiefs' "Elephant Herd" operation. It said the documents will be made available Monday to him and to the House and Senate Intelligence committees.

Congress refused administration requests for additional funding for the contras this fiscal year. Both the CIA and the contras have said that current funds ran out last May.

About $80 million in covert assistance has been formally provided to the rebels since the program began. Members of the House Intelligence Committee, however, have been concerned for several months that the CIA has developed backdoor mechanisms to supply additional matériel to the rebels.

Large amounts of equipment have been transferred from Defense to the CIA for the rebels, according to Richard C. Lawrence, who until last fall was director of Central American affairs in the office of Nestor Sanchez, deputy assistant secretary for Inter-American affairs.

"We gave the agency pretty much anything they wanted. In war they're a fourth branch of the service. There is a terrible gray area about what to do in semi-declared wars," Mr. Lawrence said Friday.

Congress's limit on CIA aid to the contras, which expires at the end of this month, forbids the use of CIA contingency funds and other special accounts to aid the rebels. In closed hearings CIA officials reportedly have assured House Intelligence Committee members that they are, in the words of one committee source, "completely within the law and they have not exceeded the cap."

A sharp disagreement exists, however, between Defense and Congress on what kinds of cost-free transfers are within the law.

The Pentagon has cited the Economy Act of 1920 to justify such transfers. The act, according to the General Accounting Office, the investigative arm of Congress, was written to prevent one agency from increasing its spending at the expense of another. Equipment may be loaned under the act, but the GAO says it must be returned in usable condition or paid for.

The Defense Department, however, interprets the Economy Act much differently. "It is a rather general law," says James Saylor, director of financial accounting policy for the Pentagon. Under the act, Mr. Saylor says the Pentagon can negotiate a price with the CIA "which is zero."

U.S. Nuclear Sites Get Tighter Security

By William J. Broad
New York Times Service

NEW YORK — The government has put into effect a sweeping new program to improve the security of federal facilities where nuclear warheads are designed and made.

The program started because of a fear of terrorism and because congressional investigations have disclosed serious lapses of nuclear security, according to federal officials.

"We have an aggressive program that has improved our security dramatically," said William W. Hoover, a retired air force major general who was recently confirmed by the Senate as assistant secretary for defense programs at the Department of Energy, which runs the nuclear facilities.

Mr. Hoover said, "We still have vulnerabilities to correct but we have created an overall environment in which terrorists will be deterred. Their chance of success is minimal and their risk quite high."

Federal officials say that, in the past year, the department has added more than 400 guards, opened an academy for security forces, held more mock raids, expanded its teams of inspectors, erected new barriers and established crisis units at dozens of federal facilities that design and make nuclear weapons.

Mr. Hoover said that funds for nuclear security have quadrupled since 1980, to $600 million a year.

Federal officials said there are several reasons for the new programs, including a heightened awareness of a terrorist threat after a bomb blast in the Capitol Building last November and the terrorist bombing that killed 241 American servicemen in Beirut last October.

Moreover, they said, secret investigations and public hearings by Congress have exposed flaws in security at nuclear facilities. Representative John D. Dingell, Democrat of Michigan, who began the investigations in 1982, has charged that nuclear security was "a shambles."

Congressional investigators said that last spring at the Los Alamos National Laboratory in New Mexico, which designs nuclear weapons, a federal exercise disclosed that a high-security weapons assembly site could have been entered by terrorists intent on stealing a nuclear bomb. The site was subsequently closed.

"In our first hearing we were told that everything was fine," said Peter Stockton, a researcher with the investigations subcommittee of the House Committee on Energy and Commerce, of which Mr. Dingell is chairman. "But we found just the opposite. There wasn't a single facility that could withstand a terrorist threat."

"They've come a long way," he added, noting the changes in security programs at the Energy Department, "but at certain facilities they still have a long way to go."

Last year, in an irate letter to Donald P. Hodel, the secretary of energy, Mr. Dingell cited a series of discoveries by investigators, including these:

- Vaults that held tons of plutonium, the key ingredient of nuclear bombs, were defenseless against assault.
- Sensors and alarms failed to work.
- In one exercise, guards fired on each other rather than on attackers.
- Guards responded to a mock raid 16 minutes after "attackers" had "stolen" plutonium.
- A Japanese helicopter crew filmed a nuclear weapons production plant without challenge.
- A disgruntled former employee drove through the main gate of one facility and threatened to blow it up.

Not long after the lapses in nuclear security were brought to Mr. Hodel's attention, the former assistant secretary for defense programs, Herman Roser, resigned and Mr. Hoover was appointed.

According to federal officials, 59 facilities around the United States design or make nuclear weapons and their components. A dozen of them are considered critical to national security. These include the Lawrence Livermore National Laboratory in California, whose researchers design bombs; the Savannah River Laboratory in South Carolina, whose reactors make bomb-grade plutonium; and the Oak Ridge National Laboratory in Tennessee, whose Y-12 plant makes weapons.

Republicans Defusing Democrats' Voter Drive

By Thomas B. Edsall
Washington Post Service

WASHINGTON — The Republican Party appears to be holding its own against, and in some cases beating, the Democrats in voter registration, which had been expected to be the most powerful weapon in the Democratic arsenal.

Democrats have been able to produce sharp increases in registration of blacks, especially in many Southern states that President Jimmy Carter narrowly lost to Ronald Reagan in 1980. But the Republicans appear to have offset or exceeded those gains with the help of their registration drive.

In Georgia, for example, registration among white voters, who favor Mr. Reagan over Walter F. Mondale by about 2 to 1, has risen almost 100,000 more than registration among blacks in the last year.

In two large Sun Belt states, Florida and California, Republicans have increased their rolls faster than the Democrats, a change that has implications not just for the presidential race this year but also for congressional and state races now and in the future.

In the Midwest and East, voter registration patterns suggest Democratic gains in some areas and Republican gains in others. The only region providing clear evidence of Democratic shifts is the East, but the gains are not strong enough yet to suggest that the number of new voters is adequate to overcome Mr. Reagan's current lead in the polls.

One bright spot for the Democrats is Texas, where registration in several key Democratic counties has increased faster than in key Republican counties.

These findings, based on a survey of state and county election officials and reflecting data from mid-August to early September, suggest strongly that the Democratic Party and its allies have failed to exploit the pool of more than 30 million unregistered adults. This pool contains disproportionately large percentages of blacks, Hispanics, poor and other voters considered more likely to vote Democratic than Republican.

Mondale campaign officials have been counting heavily on registration and voter mobilization drives this year. But the Republicans have spent more than $11 million in their registration effort, and the $4.50 the party is spending for each new voter appears to be money well spent.

In most states, the deadline for registration falls somewhere from early October to the middle of that month, leaving the Democrats little time to regain the advantages the party claimed earlier this year. In many states the Democratic drives have yet to be organized, and the party has only recently started fund raising for the program.

Herald INTERNATIONAL Tribune
Published With The New York Times and The Washington Post

A Warning From the IMF

True, the world economy has begun to improve substantially over the past year and a half. Growth seems to be spreading from the United States and Canada to the other industrial countries. Inflation is down. The most heavily indebted Latin countries have made impressive adjustments as they begin to rescue themselves. The International Monetary Fund's annual report opens with those cheerful observations.

But the IMF then goes on to suggest that all of these heartening developments are fragile, and will not continue unless the major industrial countries — read, the United States — change policy. Interest rates are murderously high. The pattern of growth is extremely uneven. It is strong in North America and Japan, but still weak in Western Europe. The indebted developing countries have been through a severe drop in standard of living, and in most of them not much recovery is yet visible. Most of the big industrial countries are running huge budget deficits that threaten the private investment necessary to keep their economies expanding. The largest of these deficits is, of course, the one being run by the United States, which is sucking in from less wealthy economies the capital they need for development.

The IMF speaks in a cautious, toneless prose that is minutely negotiated with its member governments before publication. There are no references likely to offend presidents or prime ministers. But there is an unambiguous message here. For Americans, it is a warning that their country's self-indulgence has dangerous implications not only for itself but the rest of the world. *Americans in this season* think of the economy in terms of campaign issues. It is useful to be reminded by the IMF that a lot of the people most affected by U.S. economic policy live beyond America's borders, and will have no vote in November.

In some periods of history the United States has acknowledged its broad responsibilities in managing the world's economy. In others it has neglected them, usually at grievous cost. The Reagan administration has always brushed off international financial concerns with the reply that the most useful contribution it can make abroad is to get the U.S. economy running strongly at home.

At the moment it is running very strongly, but the administration has achieved it by cranking up that huge deficit. The deficit now threatens the continued expansion in the United States, and, as the IMF rightly suggests, in other countries as well.

— *THE WASHINGTON POST.*

The Fuss Over Gromyko

Walter Mondale thinks it is "pretty pathetic" that President Reagan's first encounter with a Soviet leader will be with Deputy Prime Minister Andrei Gromyko and not the top man, Konstantin Chernenko. What is really pathetic is that there is any fuss being made about this meeting. How can a photo with Mr. Gromyko prove the president's desire for arms control? And why would Mr. Mondale let the vast issue of Soviet relations degenerate into the silly symbolism of who meets whom when?

The critical question is which of the candidates will better manage relations with Moscow, a task that requires neither novel doctrine nor sudden breakthrough but a mastery of history, diplomacy and technology.

Mr. Mondale is the graduate of an administration that wound up confusing the Soviet leaders and much of the American electorate. Mr. Reagan's has embittered the Soviet leaders and frightened much of the electorate. Choosing between them requires knowing not their appointment calendars but their states of mind, what they think they now know about how to deal with the Soviet challenge.

The former vice president should have foreseen that the Russians, for all their dislike of the president, had ample reason to accept an invitation: to prove their sincerity about arms control. *Polls predicting the president's* reelection offered another reason: His victory could then be interpreted as the voters' approval of Mr. Reagan's election-year yearnings for negotiation instead of his first three years of Cold War agitation. Any doubt the Russians may have had about also giving the president a campaign boost was surely overcome by his simultaneous offer, to the Kremlin and to Kansas, to double U.S. grain sales.

It is Mr. Reagan's approach to wheat sales that illustrates what is really wrong with his approach to arms control. He eagerly made a grain deal that serves U.S. interests even though it also serves a major Soviet interest. *He* promised no more boycotts, thus insulating the deal from future crises. And he put bread and meat on Soviet tables, virtually abandoning his hope that economic exhaustion and consumer discontent would force the Russians to drop out of the arms race.

Mutual benefit, continuity and an end of the quest for superiority — these are equally essential to effective arms control.

The president shattered continuity by refusing to seek ratification of SALT-2 even as he observed its terms. He has created the impression that he seeks superiority, not just parity, in strategic weapons. And to a radical buildup in offensive weapons, he has added the quest for a "Star Wars" missile defense, staggeringly expensive and leading toward renunciation of still other treaties.

Mr. Mondale needs to demonstrate how his sloganeering about a nuclear "freeze" and a series of summits can produce more significant and ratifiable accords than were achieved by the Carter administration. Mr. Reagan bears the even larger burden of demonstrating how his policies over four years, and his prior disdain for arms control, square with his recent professions of interest.

Mr. Reagan has said that the illness and *turnover of Soviet leaders has left him without* a negotiating partner. He has also argued, contrariwise, that only his tough stance stopped these enfeebled adversaries from acts of aggression. Now, in an hour, he aims to prove to Mr. Gromyko that Americans "mean no harm." And Mr. Mondale worries that Mr. Chernenko may not get a good translation.

It is hard to know which is the more pathetic: this brand of diplomacy or this kind of debate. Perhaps when the candidates finally meet on television, they will discuss the Soviet issue in words worthy of the job they seek.

— *THE NEW YORK TIMES.*

Other Opinion

A Nuclear-Free Southeast Asia?

The peoples of Southeast Asia are caught in the middle of a potentially genocidal contest between the United States and the Soviet Union. The proposal [by the Association of South-East Asian Nations] to declare the region a nuclear-free zone is an obvious expression of this anxiety.

Yet, we cannot seek the expulsion of one superpower — a quixotic venture — without improving the strategic advantage of the other. Should ASEAN persist in declaring the region a nuclear-free zone, such a regionwide doctrine will be notable only in its violation.

— *The Times Journal (Manila).*

For Botha, No Going Back

Although they may be exacerbated by rent increases, the recent riots in South Africa plainly have deeper causes. The irony is that they should have come at this time. After having achieved a number of diplomatic successes in southern Africa, the South African government was virtuously congratulating itself on its extension of the franchise to coloreds and Indians. These internal political developments have unleashed the very opposite of the gentle new dawn which we were led to expect. This is of course the classic pattern. Repressive regimes become most vulnerable only after they have abandoned those practices which their enemies find most detestable.

Once change has started, however, there is no going back, though Pieter W. Botha's far-right opponents will be saying that there is. It is not even possible to stay still, so great are pressures for change within South Africa. In rapid economic growth, and the consequent creation of a large black middle class, lies the greatest hope. Without such expansion Mr. Botha's gradual political approach will, on the evidence, be full of snags.

— *The Daily Telegraph (London).*

On the Satellites' Orbits

The United States obviously cannot accept the permanent subjugation of Eastern Europe to the Soviet Union. That would undo a principle of foreign policy we've lived with for decades. We've got to believe Eastern Europeans should have a right to decide their own future. We also have to recognize that the Soviet Union now sits astride all these countries, and considers their future and the relationship between them and it to be of extreme importance *to its security.*

Therefore we need to recognize this is not an issue we're going to be able to change in a short period. But it would be totally wrong, and — I seldom use the word — immoral, for us to say that Eastern Europe was now and would be forever hereafter a part of the Soviet empire.

— *Lawrence Eagleburger, former U.S. undersecretary of state, interviewed by The Washington Post.*

FROM OUR SEPT. 17 PAGES, 75 AND 50 YEARS AGO

1909: Bomb Hits East Bengal Train

CALCUTTA — A bomb was thrown at a passenger train at nine o'clock last night [Sept. 15], fifty-seven miles from Calcutta. It struck the treasure van and blew off the roof. No one, however, was injured. The van contained fifteen lakhs of rupees, the property of the Bank of Bengal. The three natives in charge of the treasure showed great courage. They pulled the communication cord and refused to leave the carriage, which is said to have been almost blown to pieces. An extremely high explosive was used, but the train was not derailed. This is *the thirteenth bomb outrage on the eastern* Bengal line. The general impression is that this latest attempt is also the work of extremists, who have stated on many occasions that they must obtain money for political purposes.

1934: Protestant Crowds Defy Nazis

MUNICH — For the first time in the Third Reich a mob protested in the streets against the Nationalist-Socialist regime [on Sept. 16]. Thousands of Protestants both in this city and Nuremberg demonstrated loyalty to their faith and Bishop Otto Meiser, head of the Bavarian Evangelical Church, who is leading the fight against the autocratic rule of Bishop Ludwig Mueller, the Nazi primate. In Munich, two flying police squads dispersed the crowd outside the Brown House, national headquarters of the Nazi party, when the mob raised shouts *of defiance against Bishop Mueller.* Nuremberg witnessed the spectacle of thousands of people standing outside the building of "Die Fränkische Tageszeitung" to jeer editor Julius Streicher, notorious anti-Semitic agitator.

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Reagan's South Africa Policy Is a Failure

By Sanford J. Ungar

WASHINGTON — The latest South African violence, coming just as the white rulers were implementing a new constitution, is an acute embarrassment for Pretoria. It is also evidence that American policy toward South Africa, known as "constructive engagement," has failed.

For nearly four years, the Reagan administration has softened official criticism of apartheid and made key concessions to the regime, maintaining that only through dialogue and cooperation could the United States be a constructive force in South Africa and its region.

When Pieter W. Botha, then prime minister and now president, unveiled his new constitutional structure last year, offering separate and unequal chambers of Parliament to the 850,000 Indians and 2.8 million mixed-race "coloreds" — but still no participation in the central government for the black majority of more than 23.3 million — the State Department praised it as a step in the right direction. U.S. officials virtually joined the campaign for its approval in a referendum limited to the 4.5 million whites.

Similarly, the Reagan administration has emerged as a sponsor — in some cases, a broker — of pacts South Africa has signed with its black-ruled neighbors. One of Pretoria's goals was to curb terrorism by denying havens to the African National Congress and others fighting to overthrow the system.

But "constructive engagement" has hardly fulfilled its promises. Things are getting worse, not better, in South Africa, and despite some encouraging signs the region remains a tinderbox.

The effort to co-opt coloreds and Indians into the system has fizzled. Only about 30 percent of the registered coloreds and about 20 percent of the registered Indians voted last month for delegates to their separate chambers. Organizers of a boycott of the elections say that when those who refused to register are considered, the combined participation rate drops to about 16 percent.

Black spokesmen have denounced both the constitution, which assures continued white dominance, and the elections as a sham. But the government blames the low turnout on "intimidation" and says enough people voted to create a mandate.

While this supposed reform has proceeded, and Washington looked the other way, the whites have otherwise tightened their grip. Forced removals of black people to artificially defined "homelands" have increased. The police raid the Crossroads squatters camp outside of Cape Town almost daily. Bannings of opposition figures are down, but there has been a new wave of arrests and detentions, especially of prominent figures in the multiracial United Democratic Front, which supported the boycott. When demonstrations broke out in several segregated black townships during the elections, sparked by an increase in rent for government housing, at least 40 persons died.

Bombs continue to explode in the heart of white South Africa. But having forced its black-ruled neighbors to expel or arrest known ANC members, Pretoria can no longer put blame on the outside; it must face the possibility that the ANC has an infrastructure and substantial support in South Africa.

The Reagan administration declines to talk with the ANC, and stands almost alone in the world as a friend of the regime. The State Department said it was "deeply disturbed and concerned" over the violence, and deplored the detentions, but still described the constitution as a legitimate if "flawed" reform.

In South Africa, the assumption that the American and South African governments are making common cause is so widespread that some white liberals, fearful for their reputations, have begun to shun contact with and invitations from American officials.

The United Democratic Front has warned that Western governments, Washington in particular, "should realize that their failure to condemn the apartheid constitution makes them the enemies of the majority of our people."

The United States is "constructively engaged" with only a small, embattled stratum of South African society. Rather, it should promote genuine participation in government by all South Africans.

The writer, senior associate at the Carnegie Endowment for International Peace, is author of a forthcoming book on American-African relations. He contributed this comment to The New York Times.

Maligning an Important Vote

By D.J. Louis Nel

The writer is deputy foreign minister of South Africa.

Drawing by Pancho

Pieter W. Botha

CAPE TOWN — In August, South Africa's colored and Indian peoples went to the polls to elect representatives to an enlarged tricameral Parliament, giving them a share of power with the whites. The voter turnout was rather low, prompting some critics to claim the elections were flawed. This claim is spurious.

The elections were an important element of South Africa's new multi-racial constitution. At an early stage in its construction, the constitution-making process was boycotted by the official opposition, the Progressive Federal Party, which argued for a "no" vote in last year's constitutional referendum on the ground that blacks were excluded from the new arrangements. The government took the line that blacks would be included in a different framework soon to be negotiated — since black politics are of a different order historically and in other ways.

By the time the colored and Indian elections came up last month, the earlier white boycott action, reinforced by leftist ideology and widespread intimidation of potential voters, had spread to sections of the colored and Indian communities as well. Once again, the boycotters based their argument on the fact that blacks were being excluded. In the end, 30.5 percent of colored voters went to the polls along with 20.2 percent of the Indians.

Now the boycotting groups are claiming "victory," conveniently overlooking not only the tactics of intimidation but also normal stay-away causes such as apathy and ignorance, and the well-known fact that lesser-developed peoples tend to vote in smaller numbers, except when dragooned to the polls.

Low turnouts occur in Mexico and India, countries that practice fairly open democracies. In Venezuela, where voting is compulsory, the turnout is usually below 60 percent, while in the recent elections for the European Parliament the turnout was as low as 38 percent in Britain. Low percentages are also not unknown in the United States. In the congressional elections of 1982, for example, 50 percent of the whites of voting age turned out along with 43 percent of the blacks and 25 percent of the Hispanic Americans. But the fact that a majority of Americans do not cast ballots is not decried since persons should have the freedom not to vote.

It is the nondemocratic societies that produce high percentages. Hitler and Stalin both claimed vast support in their referendums or "elections." And today some of Africa's nondemocratic one-party states, such as Burundi and Algeria, produce turnouts of more than 90 percent; Guinea claimed 100 percent in 1982.

The low turnouts in South Africa have led some to contend that those elections were not elections, and raised questions about the validity of the reforms the government is bringing about. What is disturbing is the attack on the institutions of our democracy that is implied.

South Africa's working democracy is the oldest in Africa. It has survived many vicissitudes and much dramatic change, and if our democracy is to be extended it must necessarily be founded on existing democratic institutions. Democracy requires time to become rooted, and its institutions and traditions provide the golden thread of continuity and legitimacy, which in turn give birth to further traditions and other new institutions as the democratic process is improved. That is what is happening in South Africa, and we dare not hamper that progress by condemning advances simply because they do not conform to one or another group's ideological predilections. Most of all, a wider democracy will be born out of South Africa's existing, legitimate democracy. We cannot afford to lose the democratic gains that have been made.

Members of the new chambers have now been elected to our enlarged Parliament. We cannot deny the right of representation to those who did vote. We will not buckle before the pressures that are being mounted to negate those elections. To do so would be to deny democracy and to stultify the meaningful process we have begun.

The New York Times.

The Issues: Reagan Shrugs Off the Mad-Bomber Role

By Stephen S. Rosenfeld

WASHINGTON — The great issue of war and peace is working on people's feelings in some strange ways and having an undeniable impact on the election campaign.

Last week in Washington, for instance, you could hear the actress Joanne Woodward saying people must either become active in the antinuclear movement or "crawl into a hole." Another actress, Jane Alexander, joined the movement after, she says, having recurrent nightmares of her children dying of radiation. The physicalness of these images is striking. With feelings so strong, no wonder so many people support a particular anti-nuclear program, the freeze, that is of little interest to most people who have studied the question.

One notes that "the experts" in nuclear matters are coming under as much of a cloud as freeze supporters can cast upon them. The freezers pronounce the experts guilty, variously, of insensitivity, elitism and nuclear "denial." At work is an unmistakable populist tendency to make the personal nerve endings of the public the ultimate guide of nuclear policy.

Personal feeling, however, is a game two can play. Take Ronald Reagan — who is miscast, I think, as the mad bomber. I see him as no less ardent than the freezers in the quest for peace. His proposal of a missile defense in space arises from the same deep distrust of those who would merely manage and regulate the nuclear competition.

Mr. Reagan wants to do away with the nuclear threat, period. He fights the raggedness, the uncertainty, the lack of control, the danger of reality. This is the impulse that has produced *his faith in a perfect defense. In the* minds of most people, in and out of his administration, who have studied the question, it is an impossible idea. Once he has made it come true, Mr. Reagan adds disarmingly, he would share it with the Russians.

Why have Walter Mondale and Geraldine Ferraro been unable to use the war-and-peace issue to make inroads in the campaign? Mr. Mondale has taken to the earnest high-policy road, Ms. Ferraro to the fervent high-emotion road, in their common effort to play on the public's supposed perception of Mr. Reagan as careless and casual about war.

But precisely on the nuclear issues, the latest polls show, Mr. Reagan is doing well and gaining. He has erased Mr. Mondale's earlier lead on the question of who would better reduce the threat of nuclear war.

Mr. Reagan's arms control director, Kenneth Adelman, says confidently that the Democrats are engaging in "simpleminded political pandering" and that the administration is on key with the public's support for "standing tall while being willing to sit down and do business" with the Russians.

The polls indicate the limitations of the view that nuclear anxiety plays into the hands of Mr. Mondale. Revealingly, Mr. Reagan's foreign-policy standing rose after the showing of the anti-nuclear television movie "The Day After." This was presumably testimony to a longing for a strong leader in a crisis — and a warning to Mr. Mondale that the leadership issue is more important than the nuclear issue as far as vote-getting is concerned.

Some may believe Mr. Mondale *will make the world a safer place* by his emphasis on taming the nuclear beast through mutually advantageous arms-control accords with Moscow. But many others evidently believe that the beast to be tamed is in the first instance the Soviet beast, and that the way to do it is not so much by negotiations — although here Mr. Reagan wants the public to understand he is making a full effort — as by "standing tall."

The widespread fear of a drift toward war is one of those gut issues, like abortion, that tap deep and complex feelings of a sort beyond the ken of most politicians.

Like abortion... Could there be a connection, in some people's perceptions, between the respect for life that Mr. Reagan defines as the essence of his view of abortion, and the striving for peace that he and his closest aides keep insisting is his deepest passion? On both issues, is he not widely seen as moral and caring?

It is possible to agree with Mr. Mondale on the conventional merits of these issues and still to suspect that Mr. Reagan has an instinctive touch.

The Washington Post.

And Won't Talk Deficits With Mondale

By Hobart Rowen

WASHINGTON — One of Walter Mondale's best issues in his fight against Ronald Reagan is the huge federal deficit. The deficit, most experts agree, results in high interest rates that threaten the long-term health and growth of the economy.

But it is an exceedingly hard issue to define for the citizen-voter: The deficit is an abstract concept, especially when the high interest rates he must pay now to buy a car or a home have not thrown the economy into reverse gear. The deficit is a danger somewhere down the road. But it is not a palpable danger now.

Nonetheless, Mr. Mondale has followed a pledge he made by detailing his plans to cut Mr. Reagan's deficit from an estimated $263 billion in 1989 to $86 billion. The major elements include $85 billion in new tax revenue (to be placed in a trust fund and used only to cut the deficit), and a net reduction of $75 billion in government spending, which includes a $51-billion saving because of reduced costs in financing the debt.

Mr. Mondale's program is economically sound and responsible. But the political dangers inherent in a gutsy decision to confront the deficit issue are even more apparent now that the details are public. The immediate response from the Reagan administration was that the spoilsport Democratic candidate would mess up the nice recovery that the president had arranged by increasing taxes.

Lyn Nofziger, a longtime Reagan adviser, called the Mondale plan "nothing more than a recovery-killing concoction which is ready-made to produce a recession that will throw millions of Americans out of work again, pile new and higher taxes on the backs of the average citizen, and make deficits higher, not lower."

Of course, Mr. Mondale did not propose raising the taxes of the "average citizen." Those in lower-income brackets would not be affected. The message he wanted to get across, but did not quite put over, was this:

First, upper-income taxpayers today are not paying a fair share of taxes under Mr. Reagan, who, with a willing Congress, provided them all sorts of concessions. So, Mr. Mondale's tax-increase program hits hardest at the wealthy and at corporate loopholes and shelters.

Second, the real threat to long-term economic growth comes not from an increase in taxes but from the high interest rates triggered by the budget deficits. A budget-deficit reduction program as blueprinted by Mr. Mondale would allow the Federal Reserve Board to ease up its tight monetary stance.

"Mondale needs a theme," said a friendly critic. "He has to assure people that higher tax revenue will help, not hurt, the economy. The only way to get a sustained recovery is through lower interest rates."

Mr. Mondale also boldly attacked Mr. Reagan on spending, charging accurately that the "government hasn't shrunk under Mr. Reagan, it has expanded," except in programs for the poor. Mr. Mondale would restore some of those funds, part of $30 billion he would add to the budget by the 1989 fiscal year.

But significantly, there is no big program to deal with unemployment: Mr. Mondale is making the more conservative assumption that private-sector economic growth, and not big spending, will create jobs.

Against that $30 billion in added spending, there would be $105 billion in reductions, almost half in lower Treasury interest payments as the deficit is reduced. Added cuts would come from defense, health, agriculture and other domestic programs.

How good is this program? One weakness is that it sidesteps the need for longer-range tax reform. But it seems an honest attempt to get the economy in a position where the Federal Reserve has an incentive to lower interest rates. It would cut some fat out of defense, and put money back into programs for the less advantaged. And it would help void some of the tax favors Ronald Reagan distributed to his friends.

Walter Mondale's problem is that he has not been very good at articulating the philosophy of his own program, and that makes it harder to convince people that it will work. The time for that is running out.

The Washington Post.

Sandinists Are Not The Worst

By Raymond Bonner

WASHINGTON — The Reagan administration has spent more than $1 billion to prop up the Salvadoran government, and $150 million to overthrow the Sandinists in Nicaragua. A comparison of the human rights records of the two countries raises serious questions about this choice of friends and enemies.

One does not have to — indeed, one should not — defend the antidemocratic practices of the Sandinists to see that there has been more freedom and less brutality in revolutionary Nicaragua than under any recent government in El Salvador.

A Roman Catholic leader in the United States, the Reverend R.J. Henle, former president of Georgetown University, has suggested comparing the human rights records of El Salvador, Guatemala, Honduras and Nicaragua. Do so, he said, and "the record of Nicaragua would stand out as a remarkably clean record."

The Sandinists have indeed censored the opposition newspaper, La Prensa — censorship that cannot be justified solely on the basis that the country is under attack. But in El Salvador there is no opposition press to censor. Opposition journalists have been murdered, their newspaper facilities bombed into silence. The *editor in chief and a photographer* for La Crónica were seized at midday in a downtown coffee shop; their bodies, hacked by machetes, were found a few days later. El Independiente closed after repeated bombings of its offices and assassination attempts on the publisher.

In Nicaragua the government has harassed some church leaders, including Archbishop Miguel Obando y Bravo, and the Sandinists recently expelled 10 foreign priests on charges of anti-government activity. Such interference with the church is pernicious and probably self-defeating. Nevertheless, the fate of clergy who have challenged the Sandinists has been far better than that of their brethren in El Salvador, where soldiers and death squads have murdered at least 16 nuns and priests, including an archbishop, Oscar Arnulfo Romero.

In Nicaragua there are no death squads. Mutilated, decapitated bodies do not show up on dusty roads and garbage dumps, as they do in El Salvador. A U.S. State Department *human rights report has charged the* Sandinists with the deaths of 12 persons in 1983; there were also 31 disappearances that year, according to Nicaragua's independent human rights commission.

In El Salvador, in each month last year an average of 140 persons were killed by military or paramilitary units and 39 persons disappeared, according to State Department figures, which are lower than those of many human rights groups.

In Nicaragua the activities of political leaders have been restricted. In El Salvador opposition politicians have been tortured and murdered. A prominent leader of the Nicaraguan opposition, Arturo Crúz, former ambassador to the United States, has returned to Nicaragua and held mass campaign rallies — something that his counterpart in El Salvador, Guillermo Ungo, could never hope to do.

Probably the most deplorable aspect of the Sandinists' human rights performance has been the treatment of the Miskito Indians. (That treatment has not, however, been nearly as horrendous as the Reagan administration claims, and according to the human rights group Americas Watch there has been "important improvement" in the Sandinists' relations with the Miskitos.)

The Sandinists have relocated Miskitos from areas where counterrevolutionary fighters are operating. But in El Salvador, according to Americas Watch, thousands of civilians have been killed in "indiscriminate" bombings, artillery shellings and ground sweeps as part of a "deliberate policy" to force civilians to leave areas of guerrilla activity.

In Nicaragua human rights abuses by soldiers have been punished. As the result of one investigation and the appointment of a special prosecutor, 13 individuals, including the commander of a security force unit, were sentenced to up to 17 years for murder, torture, rape and robbery.

That does not happen in El Salvador. Some 40,000 civilians have been killed there in the past four years. Women have been raped. Villages have been plundered. Yet not one *death squad member, not one officer* who has carried out the massacres of peasants, not one soldier — with the exception of the national guardsmen who killed four American churchwomen and a civil defense guard — has been convicted and sentenced for a human rights crime.

President Reagan has excoriated Nicaragua as a "totalitarian dungeon." What, then, is El Salvador?

The writer, a former correspondent for The New York Times, is author of "Weakness and Deceit: U.S. Policy and El Salvador." He contributed this comment to The New York Times.

LETTER TO THE EDITOR

Hazardous Cargoes

While Greenpeace agrees that, in terms of radioactivity at least, the French freighter Mont-Louis's cargo was "not dangerous," *(IHT, Sept. 3)* it did — and still does, represent a major environmental threat insofar as any breaching of the casks could precipitate a chemical explosion. Large quantities of uranium hexafluoride finding its way into the marine food chain would be problematic enough. Public reaction alone would ensure a major impact on fishing and tourist industries in the area for a considerable period of time.

If we accept, on erroneous grounds, that uranium hexafluoride shipments are "not dangerous" and therefore do not need special permits and notification procedures, then, as a consequence, we must accept the shipment of spent nuclear fuel and plutonium, both recognized as highly hazardous materials. You cannot accept one type of shipment without being prepared to accept the others, with all the attendant and well-documented hazards.

Unbelievably enough, even these recognized "hazardous" cargoes of spent fuel and plutonium are subject to the same lack of control as uranium hexafluoride shipments. Every day, vessels carrying a variety of hazardous nuclear cargoes are on the high seas. Next time disaster strikes, it may not be a ship carrying a "non-dangerous" cargo.

Sooner or later, an ocean, a community and their livelihoods will be required to pay the price of our commitment to nuclear power.

The fact is, the Soviet Union provides a service that is critical to the eventual production of the fuel rods from which plutonium is extracted for nuclear weapons used to threaten Soviet cities. This nuclear exchange, already occurring, might go critical if the ultimate objective is to produce plutonium for the weapons that perpetuate the arms race.

PETER WILKINSON,
Director, Greenpeace.
London.

Sandinists Are Not The Worst

By Raymond Bonner

WASHINGTON — The Reagan administration ... [illegible]

Washington Concerned About Shaky Relations Between India, Pakistan

By Don Oberdorfer
Washington Post Service

WASHINGTON — Increased tension between India and Pakistan has prompted serious concern here, but the Reagan administration does not believe that an outbreak of hostilities is imminent, according to official sources.

The officials discounted as "alarmist" an ABC News report that Prime Minister Indira Gandhi is being urged by her military advisers to attack Pakistan's developing nuclear enrichment facilities. Some officials said the report appeared to originate in a CIA briefing Thursday for the Senate Select Committee on Intelligence.

Recurrent intelligence reports say some factions of the Indian military are determined to destroy Pakistan's nuclear program before a weapon can be produced. Some new reports to this effect have been receive in recent weeks, said an official, who added that he did not view them as particularly alarming.

Pakistan denies it is trying to produce nuclear weapons and refuses to accept international inspection at its nuclear enrichment plant.

An interagency study that began about six weeks ago, according to the sources, was generated by "the deterioration of relations" between the neighboring countries, which fought a war in 1971. Three years later, India exploded a nuclear device in the Rajasthan desert.

Each country's distrust of the other's nuclear program was described as an element of the U.S. policy review, but not its focus. As a result of the administration discussions, officials said, U.S. ambassadors presented Washington's concern about the level of tension to senior governmental officials in New Delhi and Islamabad. Both governments replied that they have every intention of containing their differences.

A State Department spokesman, Alan Romberg, acknowledged Friday that "we have been concerned in recent weeks by suggestions of a temporary cooling in Indo-Pakistani relations."

As reasons for the U.S. concern, Mr. Romberg listed the cancellation of nonaggression talks between the two countries, cease-fire line clashes in Kashmir, public recriminations over the handling of hijackers and allegations of meddling in each other's affairs.

"We do not believe that conflict between the two countries as reported by the press is imminent," the statement said.

Pakistan began negotiating to obtain nuclear technology a few months before the 1974 Indian explosion. In April 1979, all U.S. military and economic aid was cut off because of American suspicions that Pakistan had a secret bomb program, but the Carter administration offered to restore aid after the Soviet intervention in Afghanistan that December. The Reagan administration has increased that aid.

■ India-Chinese Talks

Indian and Chinese officials were to meet Monday in Beijing for the fifth round of talks on the border dispute that has troubled the two nations since the 1950s, The Associated Press reported from Beijing. The talks, last held in New Delhi in October, were expected to last about a week.

Scientists Warn of Mudslides Near Volcano in Philippines

The Associated Press

LEGASPI, Philippines — Volcanologists said activity at the Mount Mayon volcano indicates that it will continue to pour out lava and ash for a month or more and eventually die down without a major explosion.

But scientists at the Volcanology Institute said heavy rain could loosen tons of ash and other debris accumulated on the volcano's upper slopes in mudslides similar to the ones that buried the town of Cagsawa and killed 1,200 people in Mayon's worst eruption in 1814.

The Office of Civil Defense reported that residents of a village trapped by surrounding channels of mudflow were rescued Friday night.

Richardo Diy, the civil defense operations chief, said residents of Maninila village radioed for help after a brief rainfall triggered mudflows and lava flows into channels surrounding the town. Mr. Diy said 17 people had been evacuated, but 13 others chose to stay behind to look after their belongings.

No casualties have been confirmed in the eruption, which began Sept. 10 at the 8,142-foot (2,482-meter) Mayon in the Bicol region, 200 miles (324 kilometers) southeast of Manila. Authorities say more than 21,000 people have been evacuated from the area.

The Associated Press

A Palestinian couple passing a mass grave which holds victims of the massacre of Palestinians in Sabra and Chatila refugee camps by Lebanese rightist Phalangist militiamen. The massacre started on Sept. 16, 1982, during Israel's occupation of West Beirut.

Lebanon's Prime Minister Softens Criticism of U.S. Support for Israel

BEIRUT, Lebanon (AP) — Prime Minister Rashid Karami, a harsh critic of the United States, has extended an olive branch to President Ronald Reagan while holding Israel responsible for a gunboat attack on Beirut.

The Syrian-backed Lebanese prime minister took his conciliatory stance after seeing Ambassador Reginald Bartholomew on Saturday. Their talks, he said, concentrated on the U.S. veto on Sept. 6 that killed a United Nations Security Council resolution protesting Israel's occupation policies in south Lebanon.

"We understand the domestic considerations in the United States and realize the considerations that motivate their course of action to achieve their objectives," Mr. Karami said, apparently referring to the role of the Jewish vote in the November U.S. elections.

"But," he added, "it's our right to ask them to be more evenhanded . . . because it is incorrect that there should be support to the oppressor and his oppression."

"At any rate, let us forget the past and look into the present and future," Mr. Karami said. "We do not want quarrels with the United States. We want friendship and relations based on mutual respect."

Mr. Karami had earlier said the United States was protecting "inhuman, fascist and Nazi" practices by using its veto.

His tone on Saturday appeared to reflect his hope that the United States would eventually act as a go-between with Israel to negotiate security arrangements in southern Lebanon that would induce Israel into ending its two-year-old occupation.

In a separate statement on Saturday, Mr. Karami said Israel was to blame for Friday's gunboat attack on mostly Moslem West Beirut's seaside neighborhoods of Ain Mreisseh and Raouche in which a police officer was wounded.

He said the attack was a "disturbing message" from Israel's newly formed government of national unity under Prime Minister Shimon Peres. "I am afraid this government will be extremely negative," Mr. Karami added.

An authoritative military source in Tel Aviv emphatically denied that any Israeli Navy vessel was involved in action against West Beirut.

Witnesses and communiqués from the Druze militia command, whose men clashed with the gunboat in an hourlong shootout, said it belonged to the Israeli-backed Lebanese Forces Christian militia that controls East Beirut. The Lebanese Forces did not respond to the charge.

■ Lebanese Conference

Lebanon needs at least $15 billion for its long-term reconstruction, bankers and industrialists have heard, Reuters reported from Lausanne, Switzerland, on Sunday.

More than 100 businessmen from 24 countries met with senior Lebanese officials seeking to attract increased foreign investment at a two-day conference that ended Saturday.

Lebanese delegates said the $15-billion figure was the minimum required to rebuild the country which is suffering an acute shortage of living accommodation.

West Reported Split Over Plan For Emergency Aid to Africa

By Paul Lewis
New York Times Service

ENNIS, Ireland — Western industrial nations are divided over a confidential proposal by the World Bank to create an emergency aid fund for the most impoverished black African nations, Western diplomats say.

The diplomats said Saturday that a World Bank report circulated to finance ministers of member governments meeting here painted an extremely gloomy picture of black Africa's prospects, saying that unlike most other regions of the developing world, its economic problems have been worsening.

The World Bank did not suggest an amount for the fund, but officials said privately that they were thinking of about $1 billion. The diplomats said the Reagan administration opposed the proposal on the ground it was not the best way to help African countries.

West Germany also opposes the idea, the diplomats said, but most other West European aid-giving countries, led by France, are said to be sympathetic to the idea, arguing that concern over the Latin American debt crisis is distracting international attention from the plight of black Africa.

The reported split over the World Bank proposal came before the annual ministerial meetings of the World Bank and the International Monetary Fund, which begin this week in Washington.

Finance ministers from the 10 European Community countries were expected to make an attempt to persuade West Germany to change its view of the plan, and thereby isolate the Reagan administration, in a two-day meeting Saturday and Sunday at a country hotel here in western Ireland. Results of that effort were not expected to emerge until later this week.

At these talks, the Europeans were seeking a common position before the meetings in Washington, the Western diplomats said.

European officials who favor the World Bank plan are said to argue that the Reagan administration has been quick to aid Latin American countries when they were having trouble repaying debts that are largely owed to U.S. banks, but has been much less generous toward other poor countries whose problems do not threaten the international financial system.

The special World Bank fund would reportedly make low-interest loans to the poorest black African countries if they agreed to adopt domestic economic policies that the World Bank and most aid-giving nations deem sensible.

These would include adopting realistic exchange rates for their currencies and setting food prices at levels that would encourage farmers to increase production.

A major advantage of the proposed fund, the diplomats said, is that the money for it could come from contributions member countries were prepared to make earlier this year to an expansion of the World Bank's International Development Agency, before the Reagan administration vetoed the project.

That special agency of the World Bank makes low-cost long-term loans to the poorest countries. When the agency needed more money this year, most subscribing countries favored increasing its size from $9 billion to $12 billion, but Washington blocked the move, calling it unnecessary.

European and other aid-giving countries that wanted to enlarge the agency then said they would put the additional money into a separate new fund of their own. West Germany blocked the creation of this new fund, saying that the West would be setting a dangerous precedent if it created a multinational aid-giving body without U.S. participation.

The World Bank now wants some of the money these countries were prepared to put into this fund to be earmarked for its new African aid program.

Support for an emergency aid program for black Africa came last week in a report presented to finance ministers from Commonwealth countries who were meeting in Toronto to prepare for the World Bank and IMF meetings.

The report, drawn up by a group of economic experts headed by Lord Lever, a former British cabinet officer, warns that concern over Latin America's debts to the Western banking system is tending to obscure problems in other areas "especially in sub-Saharan Africa, whose situation arouses the deepest anxiety."

Japan Warns of Threat From Buildup by Soviet

By Clyde Haberman
New York Times Service

TOKYO — The government has warned that an "unrelenting" Soviet military buildup had increased the "latent threat" to Japan and to the rest of Asia.

Despite the perceived threat, however, Japanese officials seemed more optimistic than they have been in recent years about the West's commitment to East Asia and its ability to resist aggression.

The report, released Friday, is an annual evaluation of security problems prepared by the Japan Defense Agency. It cited the U.S. deployment of bombers and nuclear cruise missiles in the Pacific as signs of an effort to "strengthen the credibility of deterrence."

The praise for the United States was consistent with moves in several areas this year to align the country as closely as possible with the Reagan administration.

On trade and military issues, normally areas of friction, the two governments have conspicuously avoided criticism this year and, in fact, have tried to bolster each other as much as possible.

One reason appeared to be a joint desire to keep things quiet while President Ronald Reagan seeks re-election and Prime Minister Yasuhiro Nakasone tries to retain his leadership of the governing Liberal Democratic Party. The party will choose a new leader on Nov. 21, and Mr. Nakasone is strongly favored to win.

If Japanese relations with Washington are sound, those with the Soviet Union remain severely strained. The Defense Agency report Friday was the latest of a series of denunciations by both sides.

The Soviet leader, Konstantin U. Chernenko, was quoted in May as warning of "militarism reviving in Japan" under Mr. Nakasone. In July, Foreign Minister Andrei A. Gromyko denounced "negative trends" in Japan's military policies. According to the Soviet press agency Tass, Mr. Gromyko complained that the government in Tokyo was "pliable to outside pressure" — meaning, presumably, from the United States.

The biggest obstacle between them remains Japan's demand for the return of four islands off its northern coast that had been seized by the Soviet Union at the end of World War II.

The military report Friday said that on one of the islands, Iturup, known as Etorofu by the Japanese, the Russians have increased the number of MiG-23 fighter planes from 20 to 40.

Japan, the report said, would continue attempts to strengthen its own defenses. For the first time in several years, the Defense Agency mentioned specific types of new weapons that are being developed, including tanks, antisubmarine helicopters and radar warning systems.

NASDAQ National Market

	Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]					

International Bond Prices - Week of Sept. 13

Provided by White Weld Securities, London, Tel.: 623-1277; a Division of Financière Crédit Suisse-First Boston

Prices may vary according to market conditions and other factors.

RECENT ISSUES

Amt	Security	Str/Conv	Issue Pr.	Mid Pr.	Yield
dm 200	Banque Franc Com Ext	8¼ % '94 Sep	100	100	8.12
cn$ 50	Winnipeg City	12¾ % '91 Sep	99¾	99½	13.08
dm 100	Rautaruukki Oy	8 % '91 Sep	100	99¾	8.29
dm 100	Escom Electr Supply	8¼ % '92 Sep	100	99½	8.34
$ 200	World Bank	13⅛ % '94 Sep	100	98¼	13.29
$ 250	Csb Overseas Capital	13¼ % '89 Sep	100	98½	13.56
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS

All Currencies Except DM

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Ave Life	Yield Curr
cn$ 18	Nova Scotia Power	9½	'94 Jul	96½	10.87		9.84
$ 15	Nova Scotia Province	9	'85 May	97	13.74	13.20	9.28
$ 75	Nova Scotia Province	15¾	'89 Mar	111	12.35		14.19
$ 75	Nova Scotia Province	15¼	'89 Aug	107⅛	13.12		14.22
$ 50	Nova Scotia Province	16¼	'90 Jul	98½	13.16	13.34	11.88
$ 75	Nova Scotia Province	15	'91 Jun	106½	13.45		14.08
$ 100	Nova Scotia Province	11⅛	'98 Feb	95⅛	12.47		12.34
$ 125	Ontario Hydro	8½	'85 Jun	97	12.97		8.76
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Ave Life	Yield Curr
ecu 50	Westlb Finance	10⅞	'91 Jan	99¾	10.90		10.90
	GREECE						
$ 20	Public Power Corporat	8¼	'84 Dec	98½	14.12	14.32	8.38
	ICELAND						
$ 10	Iceland	8¾	'86 Jan	93½	14.30	17.51	9.36
$ 15	Iceland	8	'87 Feb	88½	13.90	16.46	9.04
$ 20	Iceland	9	'87 Feb	91	13.53	15.85	9.89
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AUSTRALIA

AUSTRIA

BELGIUM

CANADA

DENMARK

FINLAND

FRANCE

GERMANY

IRELAND

ITALY

JAPAN

LUXEMBOURG

MEXICO

MISCELLANEOUS

NETHERLANDS

NEW ZEALAND

NORWAY

PORTUGAL

SOUTH AFRICA

SOUTH AMERICA

SPAIN

SUPRANATIONAL

SWEDEN

SWITZERLAND

UNITED KINGDOM

UNITED STATES AMERICA

HIGHEST YIELDS

to Average Life Below 5 Years

HIGHEST YIELDS

to Average Life Above 5 Years

HIGHEST CURRENT YIELDS

ZERO-COUPON BONDS

DM STRAIGHT BONDS

AUSTRALIA

AUSTRIA

(Continued on Page 18)

International Herald Tribune
Published With The New York Times and The Washington Post

JAPAN

A SPECIAL FINANCIAL REPORT

MONDAY, SEPTEMBER 17, 1984

New World Role For Yen Altering Monetary Scene

Special to the IHT

INTERNATIONALIZATION OF the yen is the leading edge of the wave of liberalization affecting Japan's financial markets and institutions.

Finance Ministry officials have agreed, in the course of negotiations with U.S. Treasury officials, to execute a series of rule and policy changes that should make it easier for yen to be moved in and out of Japan and should result in more yen being held and traded overseas. Yen held outside Japan are usually called Euroyen, by analogy with Eurodollar, the name given to the pool of offshore dollars centered in London. The offshore yen pool is estimated at 7 trillion yen.

Details of the actual and proposed changes to Japan's financial system are summarized in the report of the Joint Japan-U.S. Ad Hoc Committee on Yen-Dollar Exchange Rate, Financial and Capital Market Issues, published in May. The report's major conclusions are that most of the restrictions governing Euroyen loans and bond issues should be abolished and that Japanese interest rates should be liberalized. The ad hoc group says it expects that internationalization of the yen will result in a strengthening of the currency on foreign-exchange markets.

The apparent reasoning behind the expectation of a stronger yen is based on the belief that demand for the yen is artificially weak in overseas markets mainly because of official Japanese restrictions on how the currency may be acquired and invested. U.S. business lobbies have long argued that a cheap yen at low rates of interest gives Japanese manufacturers an unfair advantage in world export markets, particularly in competition with U.S. manufacturers.

U.S. and Japanese officials have sought to integrate what is essentially a trade-related argument about a stronger yen into a broader discussion of Japan's role in the global economy. The ad hoc group said that liberalization and internationalization were "primarily aimed at achieving world economic efficiency and fulfilling Japan's responsibilities as the second largest economy" in the non-Communist world.

In this broader view, the internationalization of the yen can be broken down into three major though not mutually exclusive functional areas: as a currency for financing and denominating financial trade; as a currency for long-term and portfolio investment; and as an international reserve currency.

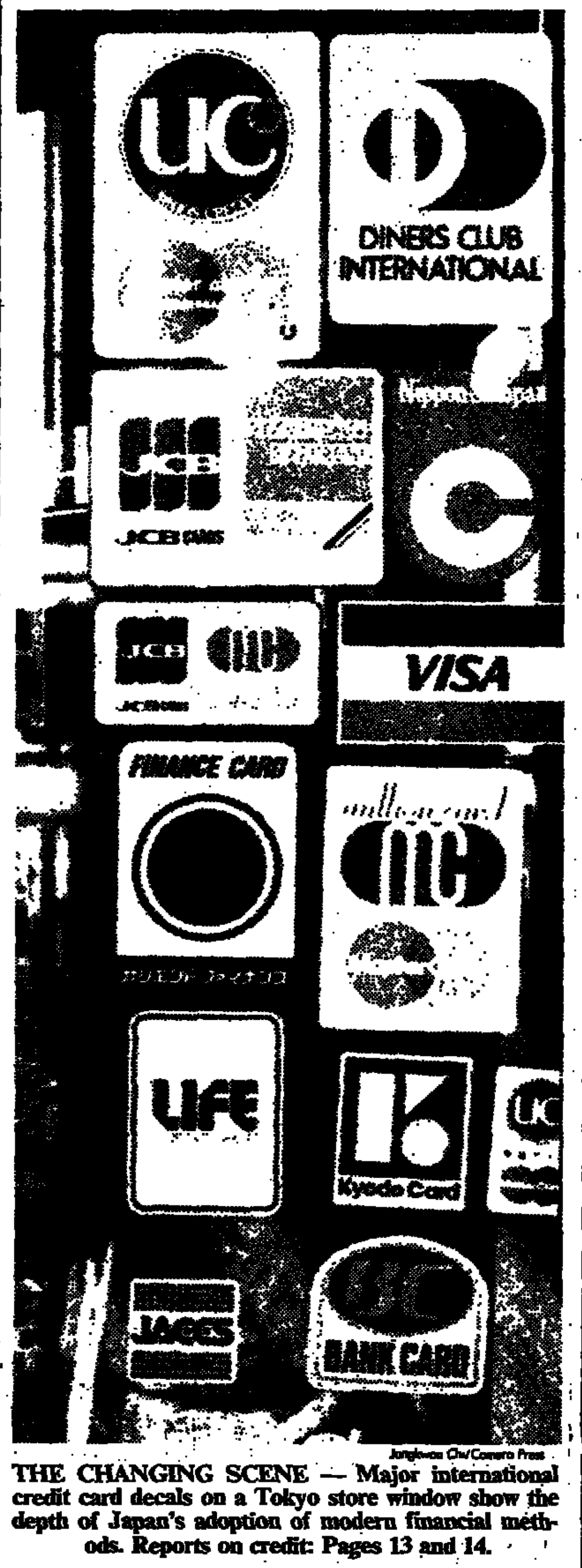
The use of the yen in denominating and financing trade relates primarily to Japan's imports and exports. Estimates suggest that roughly one-third of Japan's exports are denominated in yen, but perhaps only 2 percent of its imports. Most of the rest is denominated and financed in dollars.

The availability of trade finance is an important factor in determining which currency is chosen for transactions. Japan's money markets, at present, simply could not accommodate a large proportion of Japan's import financing requirements. According to the Japan Center for International Finance, a government-affiliated think tank, the capital needed to finance Japanese oil imports would be equivalent to nearly 80 percent of Tokyo's call and bill discount money markets.

The planned development of Japan's short-term money markets should increase the availability of yen trade finance. But given the dominance in Japan's imports of basic commodities such as oil, which are traded internationally on a dollar basis, the proportion of yen-denominated imports looks likely to remain low.

Internationalization of the yen for capital and portfolio investment is proceeding rapidly. Most of Japan's basic foreign-exchange barriers were abolished in 1980. In 1982, a net $12.5 billion of foreign capital flowed into Japan, 10 times the level of a decade earlier. At the same time, Japanese capital has been moving overseas in the form of project finance, sovereign and corporate loans, direct and portfolio investment. During 1982, the long-term capital account registered an overall deficit of $15

(Continued on Next Page)



Jungkwan Chi/Camera Press

THE CHANGING SCENE — Major international credit card decals on a Tokyo store window show the depth of Japan's adoption of modern financial methods. Reports on credit: Pages 13 and 14.

Deregulation of Financial System To Revolutionize the Economy

By Richard C. Hanson

"DEREGULATION of the [financial] system has reached such a stage that internationalization à la the Anglo-Saxon regime is inevitable," according to the Japan Center for International Finance.

Nearly everyone in Japan's conservative financial community agrees that Japan is well down the path to an open-market-oriented system. What is striking is that events of 1984 are being looked upon, with some trepidation, as the prologue to a full-fledged revolution in what for more than three decades has been a tightly controlled, rigidly structured and remarkably successful financial order.

By the end of this decade, changes already in place and those set in motion this spring (under a bright political spotlight after six months of negotiations of the Joint Japan-U.S. Ad Hoc Committee on Yen-Dollar Exchange Rate, Financial and Capital Market Issues) will no doubt help alter dramatically the face of the nation's financial system, and its increasingly important role in international capital markets.

To cynics in Japan, the results of the U.S.-Japanese negotiations represent a surrender of sorts to external pressures. Others see the events of the last year more as a plunge into the final stages of the financial community's restructuring — a process that began in the early 1970s and that has been accelerating ever since.

What is clear, however, is that in 1984 long-anticipated internal pressures and demands have been increasing at roughly the same pace as external political pressure from Japan's major trading partner. Here is what happened.

At home looms the government debt, which by the end of 1983 topped 109 trillion yen, or the equivalent of 39 percent of gross national product. Counting local government and public corporation debt, the ratio is higher than that of the United States.

Apart from making things difficult for those putting together the national budget, coping with government debt has changed the nature of Japan's financial markets fundamentally. The process began when the Finance Ministry started issuing 10-year bonds in the mid-1970s to stimulate an economy depressed by the oil crisis.

The traditional financial order was based on the absence of a large amount of government securities. That, in turn, hindered the development of a lively corporate bond market, and encouraged, as in continental Europe, a financial system built around banks.

Secondary-market government bond operations now play a central role, however, and within the next couple of years huge amounts of maturing government bonds will create a de facto, free-wheeling, short-term government bond market, setting off a number of changes in short-term money markets.

Among the victims of this trend is the Bank of Japan, whose traditional "window guidance" on bank credit no longer serves as effective monetary policy. Within the next year or so, it appears inevitable that a genuine government Treasury-bill market will appear, with the Bank of Japan's influence felt in open market operations.

For Japan's ambitious prime minister, Yasuhiro Nakasone, financial deregulation became a top priority in placating the U.S. administration, which, under strong pressure in 1983 from American big business, turned Japanese financial market deregulation (and an undervalued yen) into a political issue — to some extent overshadowing trade squabbles over such things as beef and orange imports.

U.S. business (and later the U.S. Treasury) argued that controls on Japan's domestic markets and the absence of an active Euroyen market conspired to undervalue the yen and, thus, enhance the competitiveness of Japanese exports. Americans, therefore, demanded fundamental changes.

The joint ad hoc committee was set up by Treasury Secretary Donald T. Regan and Finance Minister Noboru Takeshita during President Ronald Reagan's visit to Tokyo last November. The two officials agreed that "open, liberal capital markets and the free movement of capital are important to the operation of an effectively functioning international monetary system."

In May, six months after the committee was set up, meeting until the early hours of the morning in Rome, itsucceeded in hammering together a statement, which, among other things, confirmed the direction in which Japan was headed.

The committee did not agree on all points. Japan insisted that deregulation had little to do with strenghthening the value of the yen. In the medium term, Japanese officials argued, freer capital flows have encouraged Japanese investors to buy U.S. bonds with their higher yields. They insist that the yen's relative weakness is linked to higher U.S. interest rates, a view that most Europeans would agree with.

Japan and the United States also agreed to disagree on whether a free Euroyen market is an attractive position.

"The Treasury Department believes the establishment of a completely free Euroyen market is the cornerstone of progress toward the internationalization of the yen," the United States noted in the committee's final report.

"There is no consensus on whether the Euromarket should play a major role in internationalizing one's currency," the Finance Ministry said in reply.

The final result of the committee work, however, impressed the Japanese financial community, which displayed a great deal of anxiety over just how positive the ministry's stance on liberalization had become. Sumitomo Bank's chief economist, Kazuo Kida, described the measures as "so radical they will bring about a revolution of historic significance."

These are the main points:

- Within the next two or three years, interest rates will be largely deregulated, starting with large deposits. In Japan, yen certificates of deposit will become more accessible in smaller denominations. For banks, that will mean about 40 percent of their deposits will be deregulated, compared with about 20 percent now. Liberalization of small deposits will eventually follow. Money market fund-type instruments are to be viewed positively.
- Most barriers between domestic and overseas money markets have been removed. Japanese residents can borrow short-term Euroyen loans; banks are free to swap foreign currency into yen; and by the end of the year Euroyen negotiable certificates of deposit will be allowed. Freeing up medium-term and long-term Euroyen lending, however, will be delayed for at least a year.

(In April, the authorities liberalized to some extent Euroyen bond issues by Japanese companies but failed to remove the withholding tax on interest paid to nonresident investors. That virtually rules out straight Euroyen bonds by Japanese companies. However, underwriters have agreed to a plan that should allow Euroyen convertible bond issues to get under way when market conditions improved. Nonresident Euroyen issues will be permitted starting in November.)

- Competition between Japanese and foreign financial institutions in yen-denominated instruments will also increase as new financial instruments are permitted in Japan. Foreign banks and security companies will have greater access to short-term Euroyen. Non-Japanese banks will be approved for trust fund operations starting in 1985. Non-Japanese security companies will be able to lead-manage Euroyen bond issues starting Dec. 1.

In total, Japan committed itself to six major changes in domestic market practices and five steps to encourage the Euroyen markets, and reworked three barriers faced by foreign financial institutions.

Put into a slightly longer perspective, these most recent decisions are consistent with such milestones of the early 1980s as implementation of a new foreign-exchange law, which freed in principle all capital flows, and a new banking law, which set the stage for a further blurring of roles within the financial community.

The biggest headache still faced by the authorities is how to carry through deregulation with a minimum of domestic chaos. Keeping traditionally separate functions separate has be-

(Continued on Next Page)

Doubts Are Raised on Japanese Convertible Eurobond Issues

By Sherry Buchanan

BY THE end of the month Swiss investors will know whether they will get their money back from Riccar, Japan's largest manufacturer of sewing machines. After refusal by its bank, Mitsui, to finance a $340-million deal, the Japanese company has gone to court to seek protection from its creditors. Riccar's troubles originated with poor sales in sewing machines and the company's decision to purchase 16 hotels.

The company's misfortunes in Tokyo are being felt in Switzerland, where the company issued a convertible bond of 35 million Swiss francs that matures Sept. 30.

What is significant about the Riccar incident is that Japanese companies raise about half of their money in the Euromarkets and more than half of that amount in the Swiss market through convertible bond issues. The question is whether they will continue to finance themselves in the Euromarkets through convertible bond issues or explore new ways of funding themselves — either in their home market, by issuing warranted Eurobonds or Euroyen bonds or even with listings on Europe's stock markets.

The Riccar incident could have some slight repercussions on investors' confidence in Japanese convertible Eurobond issues, especially if the banks do not step in to pay off the company's Swiss creditors.

How much Riccar owes Swiss investors is unclear. Crédit Suisse, the lead bank in the bond issue, estimates that most investors converted their bonds into shares on the Tokyo exchange and that only 6 percent of the value of the bond — 2 million to 2.5 million Swiss Francs — is still outstanding.

Japanese company borrowing in the convertible Eurobond market has steadily grown over the last 10 years — with a slight dip in 1982. Last year, convertible Eurobond financing represented more than half of overseas financing by Japanese companies and 27.4 percent of total financing.

Convertible bonds have been the companies' favorite. Japanese companies raised 1.197 billion yen in convertible Eurobonds, compared to 436.7 billion yen in straight Eurobonds and 325.3 billion in Eurobonds with warrants — bonds guaranteed by a major Japanese bank. In 1983, the Swiss market alone accounted for 65.5 percent of Japanese companies' overseas financing, with West Germany accounting for a meager 2 percent.

Japanese companies have been swarming the convertible Eurobond market because it is a lot cheaper for them than borrowing in their home market. That could change if the Japanese government decides to liberalize its capital markets. Under growing pressure from Washington, Tokyo is considering changing some of the regulations that make it expensive for certain categories of Japanese companies to borrow in their home market. But the big Japanese banks that lend the companies money are opposed to any change that might take away some of their business.

"One of the basic reasons Japanese companies are going abroad for finance is that in Japan all bonds are mortgage bonds," said Yoshindo Takahashi, director of the London office of Nomura Research Institute. "Many of the smaller companies or even the big trading companies do not have the collateral to qualify for cheaper borrowing rates. In Switzerland, they do not have that problem."

Although the Swiss market for Japanese convertible bonds does dry up periodically, investors have remained confident in the growth of Japanese companies. With convertible bonds, the bond yield is directly linked to any increase in share price.

Following the Riccar incident, the Swiss central bank has asked major banks to require greater disclosure from Japanese companies before underwriting any new convertible bond issues.

"It's definitely a reaction after such an accident," a Zurich-based Japanese Eurobond dealer said.

But most Swiss and London-based dealers still expect Japanese companies to continue to raise the greater part of their financing abroad through convertible Eurobond issues with perhaps a slight shift to warranted bonds — bonds guaranteed by a major Japanese bank. The question facing Japanese companies this fall is whether to continue issuing convertible bonds in Swiss francs or to switch to Eurodollar convertible bonds.

There has been an increase in Japanese convertible bond issues in Deutsche marks, but most Japanese dealers argue that a dramatic switch into the mark, even after the Riccar incident, is unlikely.

"The coupon rate is almost the same in D-mark as in dollar," said another Zurich-based Japanese broker. "But Japanese companies are reluctant to do many convertible bond issues in D-mark because historically the exchange rate between the yen and the D-mark has been very sensitive. Japanese companies are afraid that in five years they will have to pay back their D-mark bonds with a more expensive currency."

Another recent development has been the increase in straight Eurodollar bond issues by some Japanese companies. The company issues a Eurodollar bond, swaps it into a floating-rate instrument denominated in dollars, then does a currency swap back into yen.

"This way they get the yen cheaper than if they borrowed yen directly," said Brendan Brown, an analyst with Philips & Drew in London. "But it's not a long-term trend, however. The profitability of the swaps will be less as yields increase and more paper comes onto the market."

Another method of financing for Japanese companies in the Euromarkets is the Euroyen bond. In April, in an effort to relax Japanese exchange controls, again under heavy pressure from Washington, the Japanese government allowed an increasing number of Japanese companies to issue straight and convertible Euroyen bonds. But the Euroyen bond has yet to catch on. One of its main problems is that it is subject to a witholding tax on interest.

Recently, Japanese companies have slowly increased their listings on European stock exchanges. According to Crédit Suisse First Boston, the London

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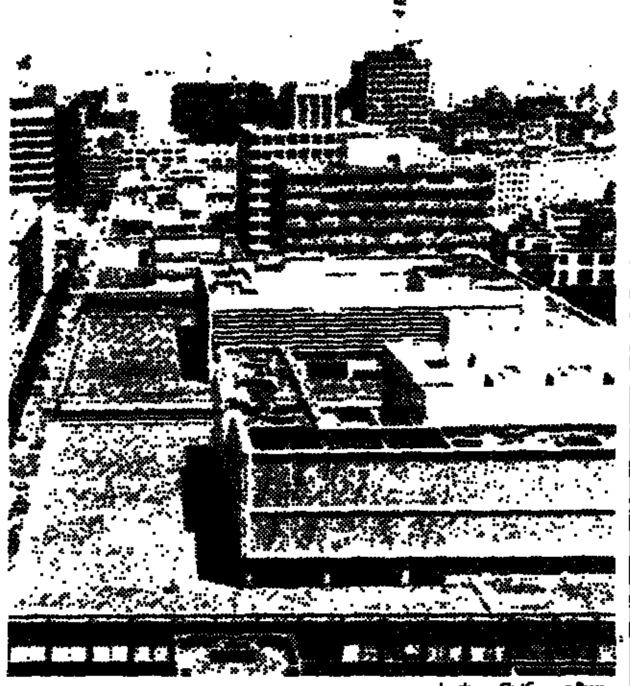

Jungkwan Chi/Camera Press

Marunouchi, Tokyo's financial district.

Jungkwan Chi/Camera Press

Headquarters of the Japanese postal ministry.

Postal Savings Funds Seeking Freedom to Invest

By Takeshi Sato

JAPAN'S GIANT POSTAL life insurance and pension funds are set to become leading investors in foreign bonds, while the country's even larger postal savings fund is seeking freedom to invest at its own discretion.

The funds, managed by the Ministry of Post and Telecommunications, have increased rapidly in recent years as the Japanese have been attracted by higher interest rates offered by the post office, which has tax- and interest-fixing privileges. As of the end of July, the postal life insurance and pension funds totaled 23 trillion yen and postal savings 85 trillion yen.

The ministry has been in the forefront of government agencies in seeking financial liberalization, especially of interest rates on small deposits.

In 1981 the ministry made a small start in investment in foreign bonds using its postal pension fund, which accounts for about 1 percent of the life insurance and pension funds. Under a 1953 law the ministry can invest 30 percent of these funds as it likes, with the remainder reserved for government and government-related organizations. Investment in foreign bonds was accelerated in 1983 when the ministry was allowed to invest the life insurance fund overseas. As of the end of July, total ministry investment in foreign bonds amounted to 349.2 billion yen.

Of the total, bonds issued by international financial institutions accounted for 39.3 percent, Canadian bonds 32.1 percent, Australian 10.5 percent, Swedish 5.6 percent and British 4.2 percent, the rest being Danish, Irish, Norwegian, French, Italian, New Zealand and Belgian bonds. About half were U.S.-dollar-denominated bonds, mostly Eurobonds, while 12 percent were yen-denominated bonds, chiefly samurai bonds issued in Japan.

Masayuki Arase, fund management division director for the post office's life insurance bureau, said, "Our investment in foreign bonds is designed to seek higher returns for our customers' money and to diversify risks." He said the division was considering investment in U.S. bonds now that the United States has withdrawn withholding tax on interest revenue from U.S. bonds held by nonresidents.

Investment in foreign bonds accounts for only 1.5 percent of the postal life insurance and pension funds now, but under guidelines arranged with the Finance Ministry the postal ministry can invest up to 10 percent of the funds — the equivalent of $9.6 billion — in foreign securities, Mr. Arase said.

He said his division was flooded with attractive offers from foreign merchant banks, investment banks and securities houses. The division's policy is to avoid foreign exchange risks through long-term investment spread over years and sometimes with preset shares relative to the total amount of a bond issue.

Mr. Arase said the postal life insurance and pension funds were aiming at a kind of symbiosis with private insurance and pension funds.

The postal savings bureau, on the other hand, maintains that its postal savings fund is handicapped by a century-old law that compels the postal ministry to entrust all postal savings, except for the amount required for interest payment, at a low interest rate, to the Trust Fund Bureau of the Finance Ministry for use in its fiscal loan and investment program, which is known as the second national budget.

Just before the announcement at the end of May by a U.S.-Japanese working group for the liberalization of Japanese and Euroyen markets, the postal ministry issued a statement proposing liberalization of interest rates on small deposits and savings, in parallel with the freeing of interest on larger deposits promised by the Finance Ministry within a few years.

This would require abolishing the 1947 Temporary Interest Rates Adjustment Law and Bank of Japan guidelines, which have held Japanese interest rates at an artificially low level, the statement said.

In August, the postal ministry released a report by an advisory panel of professors, who said withdrawal of controls over interest on small deposits and savings would be necessary because 30 trillion yen of Japanese government bonds with short-outstanding maturities would be on the secondary market by March 1986 to compete with small bank deposits and postal savings.

Nobushige Tashiro, deputy director of the management research office at the postal savings bureau, said, "The present system of using the people's savings for the government's loan and investment alone is unreasonable." Unless the ministry is allowed to invest the savings at its discretion, he said, fair allocation of Japan's financial resources will not be achieved.

Mr. Tashiro said the ministry hoped to invest postal savings in Japanese government bonds, local government bonds, financial debentures and possibly foreign bonds.

The postal ministry's plan is meeting strong opposition from private institutions, which have complained that the postal savings fund was invading the private banking business, taking advantage of the privileges given to a state-run financial service.

Norimoto Kagomiya, director of the institutional problems study section of the Japanese Bankers Federation, said that under a free economy a state-run financial service should only supplement private-sector banking. But the postal savings service accounts for more than 30 percent of

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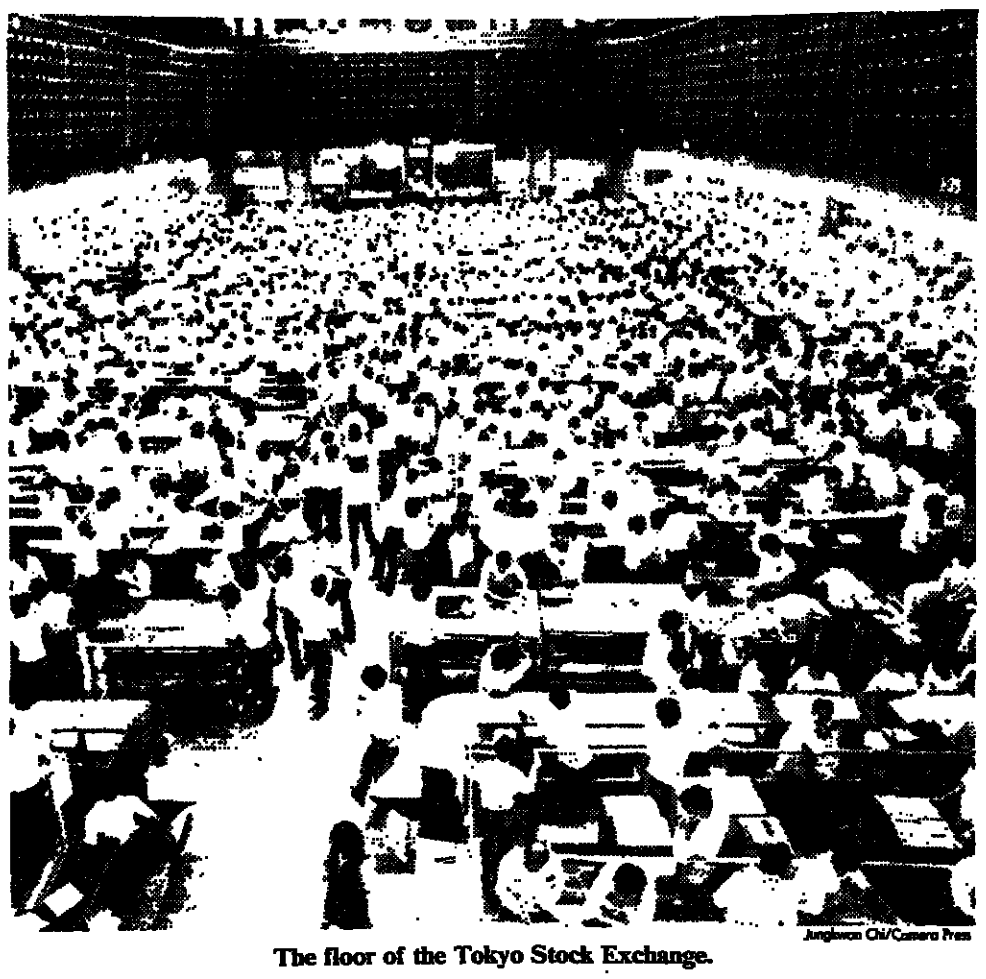

Junghwan Chi/Camera Press

The floor of the Tokyo Stock Exchange.

Stock Exchange: Dancing to Wall Street's Tune

Special to the IHT

TOKYO'S stock market has become addicted to Wall Street. Since hitting a record high of 11,190 on the Nikkei-Dow Jones index in May, Tokyo has danced doggedly to Wall Street's tune, unable to make any major move without a lead from its bigger New York brother.

Now, as Tokyo's market has slumped from its record level and then seesawed wildly around the 10,000 mark, all punditry on Tokyo's future depends critically on expectations about Wall Street. "It would be silly to make any short-term projections about Japan without looking at the United States," said an analyst at the Tokyo office of the British securities house Rowe & Pitman.

To anyone looking at the Japanese economy, this would seem surprising. Economic growth is moving full speed ahead, likely to hit 5 percent in real terms this year after two years at around 3 percent, and company profits are rising fast. Inflation is down to 2 percent a year and unlikely to rise again.

An analyst for New Japan Securities, the country's fifth biggest broker, said, "The Tokyo market has hit 1984's new low in the midst of a period of dynamic economic growth and earnings recovery." He describes this as an "ironic twist of history." The reason is the growing importance of foreign investors in Tokyo and the growing interdependence between Japan's economy and the United States's.

It has not always been thus. Tokyo has the world's largest market capitalization after the New York Stock Exchange and is backed by an economy that performed markedly better than its Western rivals. During the volatile 1970s this made Japan much the best place to invest in shares.

If a punter had invested $1,000 in 1970 in typical shares in each of New York, London and Tokyo, by now Tokyo would be the only market in which his investment would have beaten inflation (by more than 50 percent). Wall Street and London are still lower in real terms than in 1970, despite their bull runs in 1982-1983. In the 1970s many of Tokyo's twists and turns were related to New York's, but its general trend was independent: up.

This independent streak changed in the early 1980s when Japan's economy — and its companies' profits — began to be hit by recession. With economic growth slowing each year in 1981-1983, Tokyo shares lost their zip. They got it back only when Wall Street's bull run began in August 1982. Shortly after New York, Tokyo began soaring in tandem.

At the turn of 1984, when New York began to slump, Tokyo carried on rising, prompting speculation that it was *resuming its independent behavior. From mid-January to* early April the market easily outperformed its foreign rivals, rising 15 percent. Then most of that gain was lost when foreign investors bailed out, worried by Wall Street's poor performance and fearing that Tokyo's rise might have been too fast.

The vagaries of foreign investors partly explain Tokyo's latest addiction to Wall Street. Foreigners have become steadily more important in Tokyo in recent years; their share of total stock transactions rose from 3.8 percent in 1979 to nearly 14 percent last year. In April, May and June, foreigners sold 1.114 trillion more shares than they bought, easily in excess of their net 1983 purchases of 726 billion.

This means that even Japanese investors rely on spotting foreigners' moods. Foreign buying or selling is big enough to move the market. And foreigners' moods are closely linked to their views about world stock markets as a whole, particularly Wall Street. If American pension funds are selling in New York, they also — at least this year — sell in Tokyo. So whenever Wall Street wobbles, domestic Japanese investors expect a sell-off in Tokyo, too.

While foreign investors' behavior will depend basically on what happens on Wall Street, many foreigners in Japan are also gloomy about Tokyo for purely domestic reasons. GT Management, a Hong Kong-based fund management firm and a big investor in Tokyo, is bearish about Japan for three reasons:

• During Tokyo's fast rise, huge amounts of shares were bought on credit, many of which will fall due in the early autumn. More than 2.6 billion yen worth are still held in this way, only a slight drop from the year's peak. Many of these shares may have to be sold to pay the debts.

• Export growth has been closely tied to U.S. consumer demand, and at best brokers expect it to peak soon. They expect the U.S. economy to slow, halting the growth of Japanese exports and thus the shares of foreigners' favorite blue chips, such as Matsushita, Sony and Fujitsu. This could *bring Japanese growth* back down to 4 percent a year.

• Without a buoyant export sector for stock investors, foreigners can find little of interest in domestic Japanese stocks. GT says that good quality domestic stocks that would reap the benefits of Japanese growth are hard to find. Raw materials stocks — demand for which rises in periods of economic boom — such as steel and chemicals have already been well bought. (Rowe & Pitman tips these for the next sell-off.)

Foreign investors bemoan the lack of blue chip Japanese retail stocks equivalent to Britain's Marks & Spencer or America's Sears, Roebuck. Exceptions, such as the 7-Eleven store chain, are popular — and thus expensive — buys.

Such foreign bears may change their minds about Tokyo only if they see a sustained rise in Wall Street and associated strong economic prospects for Japan. These foreigners' Japanese counterparts — pension funds and insurance companies, for instance — have a similar attitude. With U.S. government bonds yielding 13 percent-plus and the dollar offering currency gains as well, they need to expect substantial gains from Tokyo stocks before they consider shifting the balance of their investments back into Japanese equities.

Although many pundits predict short-term upswings, none has yet stuck his neck out to forecast that Tokyo is on the verge of another major advance. Nor is anyone seriously forecasting a collapse, either. Wait for a lead from Wall Street is the guiding principle.

Government Bond Market Doubles Over Five Years to Finance Budget Deficits

Special to the IHT

JAPAN's government bond market is the largest in the world after the United States. The balance of outstanding bonds, which are issued to cover successive government budget deficits, has doubled over the last five years and is expected to stand at 122 trillion yen on March 31, the end of this fiscal year.

The government issues are classified into two categories: construction bonds, for financing capital works; and deficit-finance bonds, to cover current expenditure. For this year, issues of 6.225 trillion yen in construction bonds and 6.455 trillion yen of deficit-finance bonds have been planned.

The government says it aims to phase out the deficit-finance bonds by 1990, but the target may be hard to achieve if the government continues to increase military and social security spending while being reluctant to raise taxes. Prime Minister Yasuhiro Nakasone is under pressure this year from within his Liberal Democratic Party to increase government capital works spending even at the price of extending further the projected fiscal deficit.

The principal peculiar feature of the primary market in Japanese government bonds is that issues are not made at market rates, or indeed through a market-related mechanism. The government, with the Bank of Japan as its agent, places its monthly issue of bonds with an underwriting syndicate comprising most of Japan's leading financial institutions — banks, insurance and securities companies.

The coupon for each issue is fixed by the Finance Ministry through negotiation with the underwriting syndicate. On occasion, as has happened twice this year, the syndicate refuses to accept the government's offer and a stand-off results. When, the following month, the coupon rate may be raised fractionally, the flow of issues resumes.

Traditionally, only securities companies could immediately resell their tranche of bonds to private investors. Banks and insurance companies were expected to hold the bonds in their investment portfolios. In the last year, however, banks have gradually been allowed to on-sell, over-the-counter and, most recently, deal in government bonds, one of the liberalizations of Japan's financial system arising directly from the strains of accommodating government borrowing.

The first-stage liberalization of banks' role in the government bond market came in April 1983, when they were permitted to sell newly issued long-term government bonds over-the-counter to customers. In October, a similar freedom was extended in respect of medium-term government bonds. Starting June 1, larger banks, including a handful of foreign banks, were allowed to deal in government bonds carrying a maturity of less than two years. In June next year, the government plans to further abolish restrictions, both on the number of banks allowed to deal in bonds and the maturities of bonds to be dealt.

Banks' hopes of making money out of the government bonds must *center on dealing in the secondary* market — though simple over-the-counter resale has taken off to a good start, with underwriting banks on-selling about a third of their primary allocations.

Analysts believe the Finance Ministry is being particularly selective about the banks it allows to deal in government bonds because it fears that new entrants to the market may take time learning to manage their exposures. While all city (commercial) banks have been authorized to deal, only the largest of the regional banks have been similarly licensed. The ministry has said that, in assessing the eligibility of foreign banks, the preferred institutions will be those experienced at bond dealing in their domestic markets.

Securities companies have fretted that they are losing a market niche through expansion of banks into the public bond market. But the concession to bankers is in part the government's way of preparing them for the enormous job of refinancing issues of 10-year bonds, which have been offered each year since 1975. The approach to maturity of existing bonds, coupled with the leap in the government's prospective borrowing requirement, means *that not only the regulations* but also the coupon terms of bond issues will have to improve, pushing the government's debt-servicing costs up toward secondary-market rates.

For private-sector Japanese bond issuers, the liberalization of Japan's financial markets has opened up offshore fund-raising possibilities to a much wider range of borrowers. Easing of restrictions last spring means that Japan's largest resident domestic corporate bond issuers are almost all now eligible to issue Euroyen bonds, with no limit on the size and frequency of issues. By April 1985, standards for Euroyen bond issues by non-Japanese resident borrowers will be relaxed sufficiently to *admit all borrowers with double-A* credit ratings, and many with single-A.

The major outstanding restriction on a flourishing Euroyen bond market is the Japanese government's 20-percent witholding tax imposed on issues by Japanese residents and sold to nonresidents. While the tax itself may be relatively small, particularly on convertible bonds, it can be psychologically and bureaucratically off-putting to *overseas investors. An interim plan* provides for the tax to be paid at source by issuers, resulting in a lower but simpler return to the investor. In the longer term, the possibility of abolishing the tax is being studied jointly by Japan and the United States.

Some Japanese bankers say that the deregulation of Euroyen bond issues will mean an uphill struggle to maintain domestic market activity, and that some domestic changes are also needed. For the present, domestic bond issues are almost always secured on issuers' assets, while Eurobonds are normally unsecured. The practice of securing domestic bonds is likely to wane, making such issues less cumbersome for borrowers. The development of unsecured bond issues will increase Japan's need for an authoritative bond credit rating agency. Respected bond rating agencies do exist in Japan but none *with the unquestioned authority* and corporate cooperation enjoyed by Standard & Poor's and Moody's in the United States.

New Role for Yen Alters Monetary Scene

(Continued From Previous Page)

billion. Some analysts believe that, in 10 years, Japan will be the world's largest creditor nation.

The expanding flow of capital into and out of Japan has multiplied the level of transactions on Tokyo's foreign-exchange market, whose total turnover for yen-dollar transactions jumped from 147.3 billion yen in 1977 to 579 billion yen in 1980 and to 1.129 billion yen in 1983.

The growth of Tokyo's foreign-exchange market should be further stimulated this year by the liberalization measures announced and proposed, including the abolition of the "real demand" rule for foreign-exchange transactions by Japanese residents, whereby starting April 1, forward foreign-exchange transactions need not be related to a real underlying capital need; and the abolition, starting June 1, of the swap limits that hitherto restricted the ability of banks in Tokyo to raise short-term funds by conversion of foreign exchange.

The internationalization of the yen as a reserve currency — held for a long-term investment by foreign monetary authorities — is likely to be the consequence of the extent to which the yen is internationalized for capital investment and trade finance. The desirable characteristics of a reserve currency are that it be stable, widely held and readily tradable. At the end of 1982, the yen accounted for 4 percent of official world reserves, compared with 71 percent for the dollar and 12 percent for the Deutsche mark. *Monetary authorities are likely to hold more yen if a large and* liquid market develops internationally in an attractive variety of yen assets, such as Treasury bills and Euroyen bonds.

Whether internationalization does lead to a stronger yen depends not so much on the simple trend of yen interest rates as on the trend relative to that of rates available on other major currencies, notably the dollar. The yen has remained weak this year largely because high interest rates have attracted capital out of Japan and into U.S. bonds. With U.S. long bond coupons 5 to 6 percent higher than those on Japanese bonds, Japanese investors can discount an adverse exchange-rate shift of one-third and still earn a higher total return in U.S. bonds than in domestic instruments.

Pressure Growing for Regulatory Changes in Investment Portfolio Management

By Nobumitsu Kagami

IT IS ironic that no sooner had major city banks in Japan announced their plans to set up investment advisory companies than a major scandal hit the press involving illegal activities of a rather ill-reputed company supposedly offering investment advisory services to its clients.

The development served to highlight a marked contrast between the growing interest of many respectable financial institutions in the potential of the portfolio management business in Japan and an inadequate regulatory framework that allow unscrupulous operators to prosper.

There are no legal provisions along the lines of U.S. law to regulate the investment advisory business in Japan.

In theory, anyone can engage in it, although the management of discretionary accounts is not allowed except by trust banks that are given discretionary power by trust agreements.

While the absence of regulatory supervision has allowed the existence of hundreds of manipulators, the restriction on discretionary accounts has prevented healthy competition in the supply of professional portfolio management services, for which demand is increasing rapidly.

As the Japanese economy begins to mature — and as the accumulation of financial assets steadily continues — pressure for change has intensified. Of particular importance in this respect is the rapid growth of corporate pension funds, which are projected to increase from 14 trillion yen at the end of last March to more than 60 trillion yen in the next 10 years.

But only trust banks and life insurance companies are allowed to manage Japanese pension funds: Under the corporate tax law and the welfare pension insurance law, companies can charge their pension contributions as expenses *only when the funds are managed by trust banks* or life insurance companies.

This state of affairs appeared to change when Morgan Guaranty Trust of the United States and Nomura Securities, the largest securities company in Japan, revealed a plan a little more than a year ago to set up a joint subsidiary trust company as a way of trying to enter the Japanese pension fund market.

The proposed venture was blocked on the ground that the admission of securities firms into the trust business would seriously disrupt Japan's postwar financial order.

But the proposal aroused keen public interest in the enormous demand that exists for professional investment advisory services, as well as an urgent need to build an effective regulatory framework to promote such services' sound development within Japan's financial structure.

In recent U.S.-Japan negotiations over the liberalization of Japanese financial markets, the Japanese government agreed to give qualified foreign banks access to domestic trust banking, although joint trust banks with nontrust institutions such as securities companies remain forbidden.

Several business tie-ups have since been reported between Japanese financial institutions and foreign partners.

Daiwa Securities and Yamaichi Securities have announced plans to forge close advisory relationships with Citicorp and Chemical Bank respectively, with a view to forming joint investment advisory companies once their counterparts are allowed to operate as trust banks.

At the same time, negotiations are reportedly under way between Japanese trust banks and major foreign institutions to establish close working relationships.

Mitsubishi Trust Bank has made an arrangement with Merrill Lynch to exchange advisory services for pension funds management. A similar move has been agreed upon between Sumitomo Trust and Security Pacific.

More recently, Prudential Insurance Co. of America has started negotiations with Mitsui Trust Bank to form a joint investment advisory company to manage pension funds both in the U.S. and Japanese markets.

As already noted, five major city banks have made formal applications to set up investment advisory companies. The tacit approval evidently given by the Finance Ministry to these applications seems to imply that participants in the investment advisory business in future will come from diverse backgrounds, both at home and abroad. In addition, Japanese trading firms have been showing interest in participating in financial advisory services. Many have set up investment advisory companies outside Japan.

In the absence of a clear definition of the investment advisory business, no one knows exactly how many investment advisory companies are operating. At least several hundred are known to offer investment advisory services in one form or another. Among them are 12 companies that are set up as subsidiaries of major securities houses, and they undoubtedly take the biggest share of the market. The total amount of funds under the management of these 12 companies exceeds 3 trillion yen, and the amount is rapidly growing.

The recent growth in the Japanese investment advisory business was initially caused by the second round of oil price increases in 1979-1980, which left a huge sum of surplus funds in the hands of oil producers. Some Middle Eastern investors actively sought investment advisory services from Japanese securities firms for their investments in Japan. This development was closely followed by the gradual opening of the U.S. pension fund market as U.S. investors began to diversify their portfolios internationally.

In competition with money managers in the United States and Europe, Japanese securities companies entered this market with the formation of separate investment advisory subsidiaries. In addition, some Japanese advisory companies amalgamated with other international managers to launch internationally diversified mutual funds, which attracted considerable interest from U.S. investors.

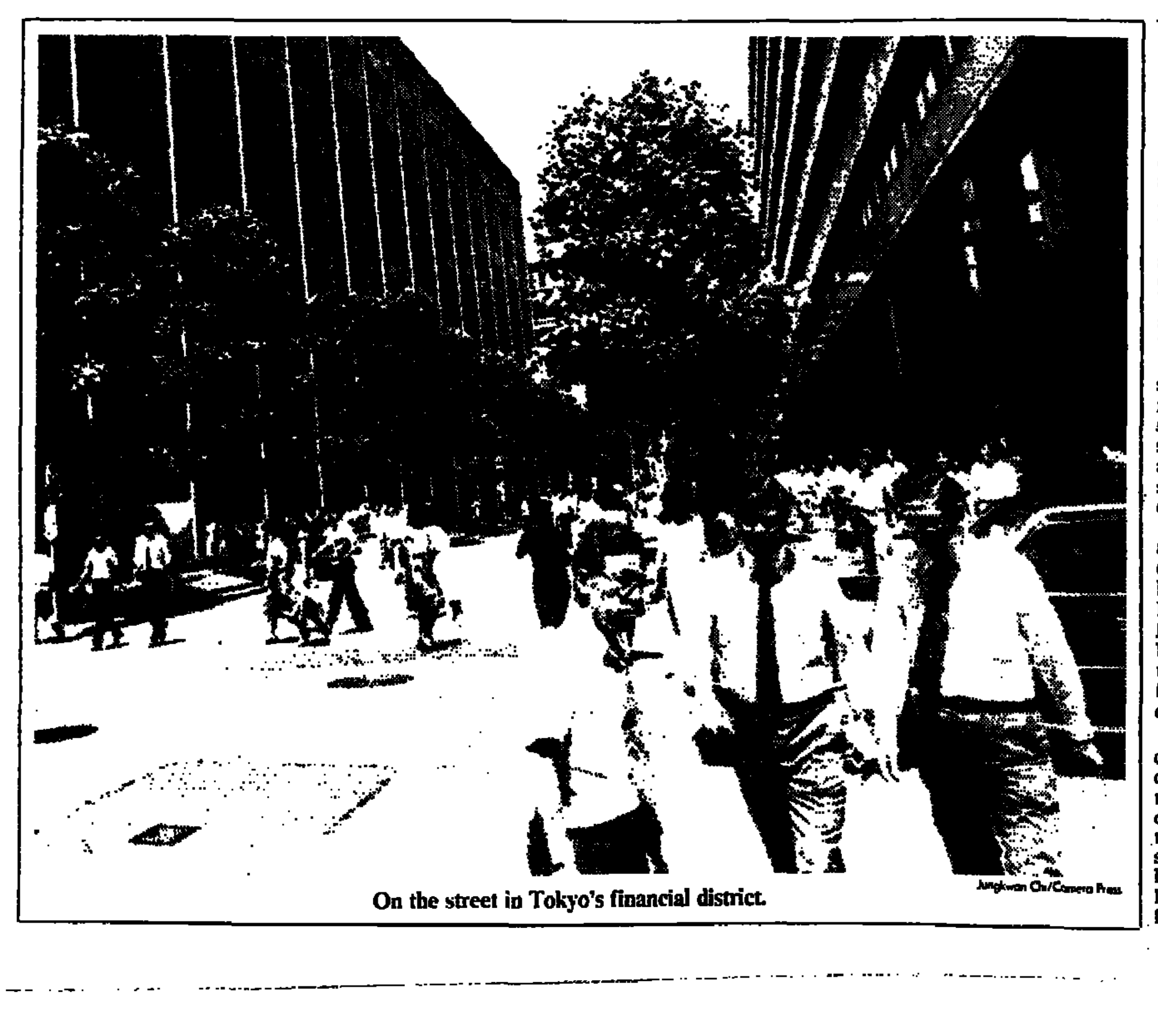
On the domestic front initial progress was relatively slow, but in 1983 cash-rich companies showed a sudden surge of interest in the services of Japanese investment advisory companies. In spite of the recent modest recovery in capital spending, investment demand remained subdued relative to the sharply increasing internal cash flows, and corporate treasurers found themselves under strong pressure to increase the returns on surplus funds. A format of "specified money trust" is used to channel these funds to investment advisory companies. In this way a company with surplus funds will sign a "specified money trust agreement" with a trust bank and then appoint an investment adviser, who will advise on investment in the securities market. Under this arrangement, investment advisers are given more discretionary power in the management of funds, while companies enjoy a modest tax advantage.

Despite deficiencies in the regulatory structure, demand for professional portfolio management services in Japan has grown at a much faster pace than anybody expected even a few years ago. At the same time, the number of financial institutions making a serious attempt to enter this growing market is increasing sharply, both at home and abroad. Inevitably, competition will intensify, and so will pressure for improvements in the quality of services to be offered.

The sheer weight of competition will accelerate the process of reform of the regulatory structure.

Given the relatively short history of the investment advisory business in Japan, it is not surprising that qualified professional portfolio managers are in short supply. If this is the case at investment advisory companies that are linked to securities companies, where most of the talent is concentrated, the problem must be even more acute for other financial institutions with practically no experience in securities investment.

The training of qualified investment managers will take a long time. More important, Japanese institutions will have to face the major challenge of creating a corporate culture that will encourage the development of professional staffs with strong individual leadership — the trait so vital to successful portfolio management.


Junghwan Chi/Camera Press

On the street in Tokyo's financial district.

Deregulation of National Finance System

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come problematic. Breaking down the barriers and increasing the pitch of competition will in all likelihood put strains on weaker financial institutions.

In a nation that has not had a bank failure since the end of World War II, a shake-out could produce major psychological ripples. Even bank mergers remain exceptionally rare and difficult to complete. There have been only two in the last decade.

Japan's own version of the Glass-Steagall Act separates banking and the securities business. A major blow to separation at home, however, was *struck in April 1983* when banks were allowed to sell government bonds. This year, banks were allowed to deal in securities. On the other hand, securities houses were allowed to sell foreign commercial paper and certificates of deposit.

Overseas, separation is even greater. One example: Japanese banks and securities houses compete for securities-type business more or less on an equal footing. Bank subsidiaries in Europe, however, are expected to play second fiddle in underwriting Japanese company Eurobonds, under a long-standing agreement within the Finance Ministry designed to keep banks from spilling over into the forbidden area of domestic underwriting.

Keeping bankers and brokers apart has become even more of a headache as a result of changes in the United States and Britain. Sanctioned by looser British rules, Citicorp's takeover of the British broker Vicker da Costa gave the Citicorp group in Tokyo both the Vickers security branch license and Citibank's bank branch — a clear violation of the spirit of the law but one that the Finance Ministry was forced (reluctantly) to accept. The ministry is determined to prevent the Vickers takeover from setting a precedent.

A further challenge to the old order involves the trust banking business. Under traditional boundaries, up until now, only trust banks and life insurance companies were allowed. U.S. negotiators fought hard to win concessions for American banks. Starting next April, a still-to-be-determined number of foreign banks will be allowed in. But with the market for private pension funds expected to grow from about 12 trillion yen now to 60 trillion yen by 1995, Japanese securities houses and other Japanese commercial banks also want a slice of the action.

Lastly, the separation of short-term and long-term markets increasingly grates on banks. At the core of the postwar banking structure are three long-term credit banks, which served as providers of long-term yen credits at home and now dominate yen-syndicated lending overseas, based on the artificially pegged long-term prime rate, now 7.9 percent.

The 13 city banks traditionally provided short-term operating capital and services to big business. (Regional banks do the same on a local level, while mutual banks are limited to smaller companies.)

While the distinction between what long-term banks and city banks do has largely disappeared, the right to raise long-term funds is still held only by the credit banks and trust banks. In international lending, the long-term and trust banks have so far succeeded in blocking a plan enabling city banks to syndicate floating-rate loans based on the negotiable yen certificate of deposits — and not tied to the long-term prime rate.

Free-floating long-term Euroyen lending will not be allowed at least for another year.

It is far too early to tell just where all the pieces will fall as the traditional system gives way. Any number of knotty political questions remain (among them, what to do about a postal savings system empowered to set its own deposit interest rates in competition with commercial banks). And it is less certain whether those results will satisfy the Americans, or others. The British will hold a first round of financial market talks with Japan this autumn, when U.S. and Japanese negotiators are also scheduled to review their early work.

Largely untouched so far are questions of greater access and deregulation of Japan's equity markets. The world's second largest stock market, Tokyo, has not a single foreign member, a situation that even Japanese officials find untenable.

It is significant that Western politicians, who for the last decade or so were mainly wrestling with a growing gap in trade competition with Japan, are beginning to grasp the importance of Japan's role in international finance markets.

Details aside, Japan is now the world's largest single source of capital. Since savings rates are likely to continue high in Japan, the supply of investable funds will remain large. Among other things, Japanese investment in the United States has become essential in allowing the U.S. government to run huge budget deficits.

For Japan, the main task ahead for its financial "revolution" is to bring a financial system more into line with the responsibilities of capitalism's second largest economy. In doing so, Japan will provide new opportunities for foreign banks and brokers. It is also likely that Japan's own banks and brokers, unhindered by the old order, will emerge as an even more potent competitive force.

THE NIKKO PERSPECTIVE

ON WHERE The Japanese Securities Industry is Heading

DURING YOUR ***career you have witnessed dramatic changes in the Japanese financial system. From the perspective of what is happening now, how do you assess the developments of the past two decades?***

Agata: I think a person must start from the economic perspective. Japan liberalized imports and direct investment only 20 years ago, and the progress has been rapid since then.

From the standpoint of the securities industry, there have been several important developments. First, we saw the securities companies—both as underwriters and brokers—begin selling Japanese equities and bonds to international investors. Nikko, along with other firms, has been expanding its international network. The reward has been not only higher revenues, but also the internationalization of the securities market.

Over the past 10 years, we have been increasingly active, as investment bankers, in assisting Japanese companies in raising capital in international markets, principally in Europe. In 1983 alone they raised $8.7 billion outside of Japan, and at the same time, foreign entities issued approximately ¥1 trillion worth of samurai bonds in our market.

Since 1971, when residents of Japan were allowed to invest in overseas securities, we have, as brokers, also facilitated the growth of capital outflows.

As you can see, capital flows have grown sizably over the past decade. For example, total trading by nonresidents in Japanese equities during 1983 was ¥14 trillion, with ¥19 trillion more in bonds. In the other direction, during the first half of 1984, net portfolio investment by Japanese in foreign securities amounted to $10 billion.

WHAT IMPLICATIONS ***do these recent trends have for the future?***

Agata: Starting from the conclusion, it is that Japan will continue to be a capital exporter.

The savings ratio in Japan has been high over the past two decades, with the result that Japan has an excess of savings. The personal sector generates a surplus of ¥30 trillion a year, while the public sector runs a deficit of ¥17 trillion and the private financial and corporate sector a deficit of ¥10 trillion. That leaves a surplus of ¥3 trillion leaving the country in various forms, including portfolio investment.

THIS SEEMS ***to reveal that the yen is emerging as a principal international currency. What is your perspective on this trend?***

Agata: The proper role of the yen—or more to the point, the appropriate value of the yen—has been at the base of recent discussions on financial markets.

The topic itself is simply evidence of the extent to which Japan has grown as a trading nation, both in imports and exports. At present, approximately 35% of Japan's exports and 3% of its imports are denominated in yen. From a global perspective, Japan accounts for roughly 8% of world trade, but the yen is the currency of settlement for only 2% of world trade transactions.

The point is obvious. The growth in trade and the position of Japan as the second largest economy have naturally brought pressures on the yen to play a role as an official reserve currency. In 1982 the yen accounted for only 3.9% of official reserves, although this figure has grown substantially from 0.5% in 1975.

These trends—the natural pressures of the international marketplace—have been at the cutting edge of change in the Japanese financial system.

COULD YOU ***outline in more detail your scenario for the future of financial markets in Japan?***

Agata: The trends themselves are unmistakable and readily recognizable to the historian of financial markets. One example is the money market, with everyone from abroad calling for deregulation and quite a few saying that Japan is too slow in pushing the process. You might recall that only in May 1973 did the U.S. government liberalize interest rates on CDs of more than $100,000. Further, only in October of last year were all deposit rates deregulated.

That's 10 years from start to finish! Japan has just started—and at the same place. The only real money market instrument in Japan is the gensaki—or bond repurchase—transaction. This market has grown to outstandings of ¥4.3 trillion at the end of 1983. There is still room for expansion and improvement of the present CD market.

The logical scenario—as many official reports are concluding—begins with the introduction of a banker's acceptance market. The next step would be shorter maturities for government paper—essentially a treasury bill market. Once the process of freeing rates on the instruments sold to large investors is well under way, the pace at which rates offered to smaller investors are liberalized will accelerate.

We can now offer individual investors a fund invested in medium-term government bonds. This has been an enormous success for Nikko and many other firms. With shorter maturities, we could offer a true money market fund, and I hope that day is not too far off.

From the international perspective, another important development is the deregulation of the Euroyen market. Now we have the beginnings of a truly free international market. For issuing Euroyen bonds, resident entities still use the securities companies, but for nonresident entities, we compete directly with the foreign investment banks and the underwriting subsidiaries of the Japanese banks. The positive effects will eventually be felt on the competitive environment domestically.

Shigeru Agata

Executive vice-president in charge of international operations at Nikko Securities, Shigeru Agata represents 35 years of experience in the securities industry, including 20 in international operations. He is active as a member of various industry committees and government advisory bodies.

GIVEN THESE ***developments, what is your perception of the strengths of Nikko and other Japanese securities companies?***

Agata: One of the most frequently overlooked strengths is our capital base. As of June 1984, Nikko probably ranked third in the world with net assets of ¥337 billion, or approximately $1.4 billion. Our total operating assets are roughly ¥12 trillion, with one-third in the form of mutual funds and other assets under management.

Also we have a very liquid financial market in the background as I mentioned before. Any financial institution appreciates the importance of a strong capital base. It gives us a solid foundation on which to expand internationally. Equally important, it gives us more muscle as a diversified financial services company.

IN THE FINANCIAL ***services industry, any well-managed company must develop scenarios for the future and make certain strategic moves. What are the strategies at Nikko?***

Agata: I hinted at several already. Basically, our strategy is aimed at making us excellent investment bankers, superior brokers, and prominent money managers.

In the field of investment banking, we will strengthen our corporate finance capabilities domestically and internationally. We are moving into new areas, such as venture capital and mergers and acquisitions. We have already set up a venture capital operation under the name of Nikko Venture Capital.

These skills in investment banking must be combined with a strong competitive position in the brokerage business. As the Japanese stock market has grown, so has our role as a broker and market maker. The bond market has expanded at an even faster pace. A good bond dealer can be effective only with a solid capital base—something Nikko definitely has. I should mention that we are seriously considering the creation of a bond future market.

From a strategic perspective, our ability as a dealer is necessary to respond to the trends of internationalization and liberalization. This ability is also a principal determinant of our abilities to grow as an underwriter and broker. The combination of the three—underwriter, broker, and dealer—fits my definition of an excellent investment bank.

Another strategic move is the expansion of our information services. This means real-time delivery of information to investors worldwide and the development of better software for portfolio analysis.

The third component of our corporate strategy is the asset management business. In Japan we have been one of the top managers of investment trusts and institutional accounts. We have also had our share of success in attracting institutional money from abroad. In my opinion, the competition for managing these funds is just beginning. For instance, only 1% of U.S. pension funds are invested abroad, a percentage that must increase. The performance records of Nikko International Capital Management give me the confidence that we can grow faster than the market.

FROM YOUR ***recent experience, what would you point to as some of the more interesting developments over the long term?***

Agata: I have traveled extensively in Asia and am excited by the prospects for the region. Nikko already has offices or joint ventures in Seoul, Hong Kong, Singapore, Jakarta, and Bangkok.

The process of liberalization in Korea is also encouraging. Nikko, for instance, has been instrumental in initiating the Korea Fund that is now being traded in the United States. We hope to see more ventures of this kind as the equity market matures and is open to nonresident investors. I know of strong interest among international investors, including Japanese, in Korea and the other newly industrialized nations of Asia.

These developments are good for the region and contribute to the healthy growth of the global financial system. They also mean new business opportunities for a good investment bank. I think we are naturally positioned as a pioneer in providing investment information on Asian countries. As one step, Nikko Research Center just formed the Asia Department.

NIKKO

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LONDON ZURICH GENEVA FRANKFURT LUXEMBOURG PARIS BAHRAIN NEW YORK SAN FRANCISCO LOS ANGELES TORONTO HONG KONG SINGAPORE SYDNEY SEOUL

Jungkwan Chi/Camera Press

Time for exercise in a retirement home.

Junghwan Chi/Camera Press

Collecting old-age pensions in the Tokyo Central Post Office.

Corporate Pension Funds Are Expected to Reach $252 Billion Within a Decade

By Peter McGill

THE RAPID graying of the Japanese work force may be causing ulcers among businessmen faced with mushrooming retirement bills, but for the select group of pension fund managers the prospect of an increasingly geriatric Japan is one of unalloyed pleasure.

Already worth nearly $60 billion, Japan's corporate pension funds amount to one of the world's greatest piles of money. On current trends, it will soon become a mountain.

Traditionally, Japanese companies have paid off retiring workers with lump sums as a cheap and simple reward for years of service. But by 2000, demographers predict, only three active workers will be supporting each retiree, against 7 to 1 now. The consequence of continuing lump-sum payments could be colossal, sudden drains on company reserves, so corporations are increasingly switching to advance funding of corporate pension plans. (They were also prodded by a government policy of taxing 60 percent of lump-sum retirement money but treating prefunded pension deposits as tax-exempt "expenses.") As a result, Japan's corporate pension trusts grew 19 percent last year and it is estimated that they will reach $75 billion by the end of 1985 and a staggering $252 billion 10 years hence.

Management of this formidable stash has until now been the cozy preserve of a monopoly created by the Finance Ministry: 20 life insurance companies, 7 trust banks and Daiwa Bank, a hybrid commercial bank that stubbornly refused to get out of the trust business when ordered to do so in the 1950s.

More than 60 percent of the corporate pension billions are tied up in the trust banks and Daiwa, so when the U.S.-Japanese accord on liberalizing Tokyo's financial markets opened the door a crack on Japanese trust banking in May, a stampede of foreign financial institutions looking for a way in quickly followed. Although the accord only states vaguely that the Finance Ministry will "license" foreign banks to join in Japanese trust banking activities, including partnership and setting up "service and advisory relationships" in the "trust banking business," it was the green light for frantic courtship of the Japanese trust banks. "Since then everyone has been talking together," said one banker.

First off the mark was Security Pacific Corp., reaching a basic agreement with Sumitomo Trust to swap investment advice in the United States and Japanese capital markets and then, if all goes well and ministry approval is obtained, to pool their pension funds in an offshore company that would invest the money in third countries. Sumitomo Trust is one of the more profitable of the Japanese trust banks, and holds the pension accounts of the Sumitomo group, such as NEC. The choice of middle-ranking Security Pacific ("Not a great reputation in U.S. fund management," one Tokyo broker commented) raised eyebrows in the Japanese financial community, but Sumitomo Trust pointed out that the agreement was non-exclusive for both parties and that Sumitomo was now holding talks with a major U.S. bank.

Prudential Insurance Co. appears to have reached tentative agreement with Mitsui Trust to create a joint investment advisory firm to manage Mitsui Trust's pension funds in the U.S. market and Prudential's pension funds in Japan. The initial approach by Prudential was to create a joint trust company, but this was scaled down as it was thought that the ministry would not approve it.

Mitsubishi Trust, which includes blue-chip Mitsubishi Heavy Industries and Mitsubishi Electric as its biggest pension fund clients, seems to have gone farthest down the road in a deal for joint fund management with Merrill Lynch Capital Markets. Employees of Mitsubishi Trust will be sent in September to Merrill Lynch for training, with joint management of Mitsubishi Trust funds in the U.S. market starting early next year, said Motohiko Fujii of Mitsubishi Trust.

Mr. Fujii said that Mitsubishi Trust had three principles governing tie-ups with foreign companies: They must be non-exclusive, allowing Mitsubishi Trust to enter partnership with any U.S. or European bank or securities house; "foreign partners cannot manage Mitsubishi Trust funds on a discretionary basis;" and Mitsubishi Trust will engage in no joint venture that would require special license by the Finance Ministry.

Mr. Fujii also made it clear that Mitsubishi Trust was entering the deal "as a normal commercial transaction" to improve the bank's competitiveness and efficiency, rather than "allowing foreign banks an equal footing" (as the ministry diplomatically claims) or as the first step to a foreign takeover (as some Tokyo bankers fondly appear to believe).

With "interest rates in U.S. markets much higher, it's a good time for Mitsubishi Trust to invest there," Mr. Fujii said, and to utilize what he called Merrill Lynch's facility in investing in the U.S. market. Since Mitsubishi Trust's pension fund clients are interested in moderate, conservative management rather than spectacular but volatile returns, he said, Merrill Lynch would first invest Mitsubishi Trust's money in low-yielding fixed-income securities, with equities as a "possible later stage."

"At present, Mitsubishi Trust does not have enough experience in investing in foreign securities," Mr. Fujii said. "Maybe in two or three years we will have our own managers for foreign markets." In the meantime, he said, Mitsubishi Trust would willingly accept an offer to manage Merrill Lynch's funds in the Japanese market.

Not surprisingly, the other side of the fence shows an entirely different perspective. U.S. and European bankers barely conceal their contempt at the "extremely low" and even "abyssmal" interest yields of the trust banks on pension portfolios (7 to 8 percent) and return on assets (0.03 to 0.1 percent). Japanese trust banks "have not much future," said one observer. "In any other country they would be ripe for acquisition. Being Japan, that won't happen."

While the Japanese trust banks appear willing to share their huge pension fund dowries only if the foreign suitor gives them access to foreign markets, Morgan Guaranty Trust says it is in the game for bigger stakes.

As the largest pension trustee in the United States and long established in the Japanese market, "we don't need Sumitomo Trust or anyone else to invest U.S. money in Japan — we're doing that already," said Peter Culver, Morgan Bank's Tokyo vice president. "We'd like to manage Japanese funds in Japan, otherwise we won't be an important force in the market."

Morgan Guaranty, he said, would offer a more aggressive management of pension portfolios than is now offered by the trust banks or life insurance companies and cater to a growing demand for a more diversified range of services.

"Japanese companies will want to divide up their funding to see how managers compare," and demand "different portfolios for those retiring in 10 years to those retiring in 25 years," Mr. Culver said. While he acknowledged the conservatism of the many big Japanese corporate pension clients, he added that "increasing the yield by, say, one-half percent makes a big difference if the money is entrusted for 25 years. That means either more money for the firm or more money for the employees' pension."

Like most of its big U.S. competitors, as well as Barclay's, National Westminster and a host of London merchant banks, Morgan Guaranty is "actively reviewing its options" on tie-ups with Japanese trust banks, Mr. Culver said.

While none wishes to be last in signing up one of the Japanese trust banks as partners, the foreign banks' ardor is dampened by uncertainty as to the dowries on offer. The powerful Finance Ministry still has the last word, and a ministry "review into the merits and demerits of opening up Japan's trust banking" is under way.

The ministry has said that it will announce its findings next year. Tokyo financial circles believe the ministry intends to restrict the number of foreign banks licensed to engage in trust banking in Japan to seven or eight, with at least four being American. The criterion for being licensed would be "operating a trust banking business in the home country," said a ministry official.

A crucial consideration for foreign financial institutions is what changes, if any, the ministry will allow to its restriction on the trust banks' assets. Current ministry "guidance" is that at least half of the trust banks' assets must be in principle guaranteed investments such as commercial loans and bonds, with no more than 30 percent in equities and a 10-percent limit for nonyen-denominated currencies.

A ministry official explained that the 10-percent ceiling on foreign-currency-denominated assets was to protect pension funds and other assets from "great exchange risks," and that it might be applied to foreign banks entering the Japanese trust banking business, automatically narrowing the potential field for foreign partners offering expertise in, say, the U.S. market.

"The Ministry of Finance is walking a thin line," said Morgan's Mr. Culver. "They're trying to let others in and keep Japan's trust banks viable."

Financial Liberalization a Mixed Blessing for Foreign Banks

By Susan Richner

FINANCIAL deregulation in Japan has always been a two-edged sword for foreign banks in Tokyo, creating new opportunities for yen transactions but *increasing the competition* from Japanese banks. Similarly, the future will present foreign banks with a bouquet of mixed blessings. Both the opportunities and the problems for the 75 foreign banks doing business in Tokyo are likely to increase dramatically as liberalization of the Japanese financial system takes off in earnest over the next few years.

With the Japanese economy slowing and demand for capital dropping, foreign banks have seen their profits shrinking as well. Their average return on assets was 0.06 percent for the year to March 31, 1984, and 15 of the banks reported a loss. Manufacturers Hanover Trust had the largest profit, 1.3 billion yen, but even this was 30 percent less than in 1983. The competitive atmosphere has produced new strategies and a scramble for new business, especially in the expanding Japanese pension fund market.

Until the Finance Ministry took its first cautious steps toward easing controls on capital transactions in 1979, foreign banks had enjoyed a lucrative monopoly on foreign-currency loans, while being prohibited from doing much else in Japan. The booming Japanese export drive created a demand for foreign currency, while economic growth enabled foreign banks to forge links with many local companies as second or third lenders.

Business was so good during the 1970s that the number of foreign bank branches increased dramatically, but there was no corresponding growth in their share of the Japanese banking market. In 1975, 50 banks had shared 2.9 percent of the business, but by 1983, 73 foreign banks were dividing up only 3.1 percent.

Slower economic growth squeezed the foreigners, but the biggest blow was the entry of the huge Japanese city or commercial banks into the market for *foreign currency "impact" loans, originally developed* to supply foreign capital to Japanese corporations during the oil crisis. The loans were a major source of foreign bank earnings during the 1970s, but the banks lost their monopoly over such loans when they received "national" treatment from the authorities in 1980. The Japanese banks plunged into the market, with notable success. By late 1981 they had seized 90 percent of the business.

In exchange, foreign banks received easier access to yen funding through the issuance of certificates of deposits, entry to the Gensaki bond market and an increase in swap limits. Last spring, as part of the yen-dollar agreement with the United States, the minimum amount for yen CDs was lowered, and forward foreign exchange transactions have been liberalized. Both moves have been welcomed by foreign banks, although it is not clear that they will have much effect on the banks' bottom line.

The reason so many foreign banks are determined to hang on in Japan despite the difficulties is the increasingly likely prospect that Tokyo will become Asia's premier financial center, rivaling London or New York. With the Finance Ministry's new commitment to liberalization of Japan's capital markets, this could happen sooner than anyone expected. A stake in the Tokyo market has become essential for any bank describing itself as international.

One of the biggest lures Japan offers to foreign banks in this transition period is the giant Japanese pension fund market. Trust investment has been the monopoly of seven Japanese trust banks, 20 life insurance companies and one city bank, Daiwa. Morgan Guaranty Trust was the first foreign bank to try to break into this business, in July 1983, when it proposed to the ministry the formation of a joint trust company with Nomura Securities, Japan's largest brokerage house. The plan was to combine Morgan's extensive international securities expertise with Nomura's knowledge of the Japanese securities market and its links to Japanese corporate clients.

The idea was rapidly copied by other major foreign banks and Japanese securities houses, including Citicorp and Daiwa Securities, Chemical Bank and Yamaichi, *and Bank of America and Nikko. All* these plans were shelved, however, when the ministry indicated that it would not give the green light to the Morgan-Nomura venture, primarily because of its direct threat to the trust banks and its breach of the traditional division between banks and securities companies.

Since then, the Finance Ministry has agreed to let some foreign banks into the trust business on their own, or through link-ups with Japanese trust banks, in 1985.

It is easy to see why so many foreign bankers are eager to break the trust banks' monopoly. The combination of a rapidly aging work force, a policy of enforced retirement for most workers in their mid-50s and slower economic growth has increased pressures for the Japanese to get a higher return from their pension funds. Once content with the usual yield of about 8 percent from funds managed by the Japanese trust banks and insurance companies, major corporations are now looking for higher yields and more sophisticated advice. Foreign banks such as Morgan, Chase and Security Pacific, with extensive experience in trust fund management elsewhere, would like to fill that need.

The stakes are high. Japanese corporations are shifting away from a traditional system of a single bonus payment at retirement to annuities or a combination of the two. As a result, Japanese corporate funds have grown from less than 1 trillion yen in 1973 to more than 10 trillion yen today, with a further 400-percent increase predicted by 1999. With management fees of about 1 percent of assets, these funds represent potentially huge earnings for trust managers.

The trust banks and insurance companies manage most of these pension funds very conservatively, hampered by government controls that allow them to invest only 10 percent in foreign currency assets and only 30 percent in equities. Government or corporate bonds and commercial loans account for at least 50 percent of the funds' investments.

There is little of the overt competition among portfolio managers that is common in Europe and the United States. Relationships between fund managers and the corporations follow the Japanese tradition of mutual obligations, family ties and enclosed trading groups, *with the oldest links usually the strongest.*

Breaking into this network will not be easy even for the long-established foreign banks once the Finance Ministry permits them to enter the trust banking market. The smaller bank branches may be unable to grab any of this business. Moreover, the banks that do break into the closed club of pension fund management will have to do it quickly. Although the ministry has given no indication when, or even if, it will let Japan's 13 commercial banks enter the trust business, *such a move looks inevitable.* Foreign banks could again, as with impact loans, find the biggest share of this new business seized by Japanese competitors.

The fastest way into the business could be to join forces with the threatened trust banks. Security Pacific was the first to take this route when it signed an agreement to exchange investment advice with Sumitomo Trust Bank in June. Eventually the link could be expanded to include a jointly managed offshore investment company. While some foreign bankers dismissed the Security Pacific-Sumitomo link as unimpressive, many of them are trying to sign similar deals with other Japanese trust banks.

The outlook for foreign brokerage houses in Tokyo is less clear. Although last year's influx of foreign money into the Japanese stock market provided firms with a bonanza, foreigners were net sellers to the tune of 1.08 trillion yen between January and May 1984.

The interest of foreign investors in the Tokyo market and Japanese securities will most likely continue to grow. But not all this business will go to foreign brokers, none of whom has a seat on the Tokyo Stock Exchange. They currently place buy and sell orders with Japanese brokers, who give the foreigners "discounts" on commissions. But such "discounts" still represent a 27-percent bite out of the foreign brokers' own commission, a large percentage compared to the cost of executing trades in London or New York.

The United States has pressed Japan to make it easier for foreign brokers to join the Tokyo exchange, and the exchange has agreed to study the issue. Legally, there are no barriers to foreign entry, as Japanese brokers often point out. But there are also no exchange seats for sale. And the total cost of such a seat, if one becomes available, is estimated at a prohibitive $4 million, about 10 times the cost of a New York Stock *Exchange seat. The Tokyo exchange's study will* stretch into 1986. Until there is a major restructuring of the exchange, permitting the entry of more Japanese companies as well, the foreigners are unlikely to get what they want.

Euroyen Market Agreement: Landmark in Finance System

Special to the IHT

FINANCIAL officials from the United States and Japan toiled for eight months up to May 21 to come to mutually acceptable terms for a liberalized Euroyen market. Their agreement was the most important measure — some would say the only important — agreed upon by the countries in an attempt to open up Japan's capital and money markets.

Japan agreed to let any nonresident entities issue Euroyen bonds starting Dec. 1, and will let an even wider range of nonresident borrowers use the market starting April 1. Thirty prime Japanese corporations were cleared to issue straight Euroyen bonds last April 1, and 108 Japanese companies were allowed to issue convertible Euroyen bonds.

The Euroyen loan market was also liberalized, with Japanese borrowers of Euroyen allowed to use the market more freely starting June 1, 1984.

In addition, the Japanese authorities made it clear that they would not try to impose the kinds of administrative guidelines that they favor in the domestic bond and money markets. There would be no queue, formal or informal, to issue Euroyen bonds — a much more relaxed attitude than that taken by the Bank of England, for example, in its supervision of Eurosterling issues.

Nor would the Japanese authorities require bond issuers to use Japanese companies as lead managers of the issues. Lead managers would be free to put together management groups in whatever manner suited them best, and would face no restrictions on placing the bonds with investors.

It looked like an impressive package of liberalization.

In practice, nothing has happened. So far this year, there have been four issues of Euroyen bonds, three of them for supranational institutions — the Asian Development Bank (15 billion yen, in February through Daiwa Securities Co.), Eurofima (10 billion yen, in March through Nomura Securities Co.) and the World Bank (20 billion yen, in April through Nikko Europe) — and one for New Zealand (5 billion yen, in May through Daiwa Europe).

The expected flood of Euroyen paper from Japanese corporations has not materialized. According to one Japanese press report, companies were eager to raise about 100 billion yen, through Euroyen convertibles, with such well-known names as Mitsubishi Heavy Industries, Renown, Sharp and Sanyo Electric in the wings. None of these issues has made it to the market place.

The situation is much the same in the Euroyen loan market. There were two quick deals arranged for Japanese residents in June. The first was for the trading company C. Itoh & Co., which raised a one-month loan of 300 million yen through the Singapore branch of a major Japanese bank, Dai-Ichi Kangyo Bank Ltd. This was soon followed by a one-week borrowing of 5 billion yen by Nomura Securities from Daiwa Bank in London. Since then the market has been quiet.

The doldrums in the Euroyen markets have nothing to with worries about the level of Japanese interest rates, or the value of the yen, or any other economic trends, as can be seen from the healthy state of the samurai market (a samurai issue is a yen bond issued by a foreign borrower in the domestic Japanese bond market; a yen Eurobond, issued by Japanese or foreign borrowers, is issued and funded outside Japan in Euroyen, or yen held outside Japan). Foreign borrowers are using the samurai market as never before, and the scheduled volumes of issues for October of 145 billion yen is a record high, surpassing the 135-billion-yen record set in July 1978.

Borrowers and investors alike seem to be eager to arrange Euroyen deals — the thriving state of the samurai and yen loan markets are testimony to that. So why have so few taken place?

Mainly because the Japanese authorities are unwilling to remove withholding tax on the interest income of nonresidents. Withholding tax applies to all forms of interest income, whether from deposits by foreigners in Tokyo banks or from overseas holdings of Euroyen bonds.

The authorities, arguing against removing the tax, say the government is under pressure *to cut its* budget deficit and cannot afford to abolish any taxes. But as long as the tax is in place, there is no Euroyen income to tax.

The authorities also say that double-taxation treaties reduce the tax rate that many overseas investors would pay on their Euroyen income. That, too, is disingenuous, since a fair proportion of the money invested in Euroassets is tax-shy money specifically in search of income not declared to national authorities.

Until July, Japan was also able *to point the finger at the United* States, which up to then similarly withheld tax at the source for nonresidents' interest income. With the abolition of that practice, however, the Japanese officials are out on a limb.

In an attempt to deflect criticism of the withholding tax, the Finance Ministry changed the rules in August. It decided that Euroyen bond issues could go ahead on a "net" *basis. Interest income would not be* taxed. Instead, the issuing Japanese corporation would pay the tax.

The concession has, understandably, failed to set the market alight. Japanese corporations were attracted to the idea of Euroyen fund-raising because it was cheaper and more convenient — an overseas bond issue does not have to be backed by collateral, for example, whereas domestic bond issues require security. Shifting the tax burden from the investor to the issuer merely re-erects the roadblock on a different stretch of the road.

It may be that a few corporations will go ahead with issues — most likely through convertibles, where the tax element is lower because the coupon rate, and consequently the interest income and tax bite, is lower than on straight bond issues. But the market will not catch fire until the tax is abolished. As it stands, trying to arrange a Euroyen bond issue is rather like trying to market right-hand-drive cars in a left-hand-drive country. You can sell a *few of them for their novelty value,* but for most people the inconvenience will be too much.

Junglowan Chi/Camera Press

Bank and traffic signs conflict in the financial district.

Doubts Raised On Bond Issues

(Continued From Page 7)

underwriter that does the majority of listings for U.S. companies and a few of the Japanese ones, Japanese companies may show a growing appetite for European listings. The reason is that when European investors in Japanese convertible bonds trade in their bonds for shares on the Tokyo exchange, they tend to do it all at once, and that depresses the value of Japanese shares. It would therefore be in the interest for Japanese companies, argues Crédit Suisse First Boston, to increase their foreign shareholdings.

But if Swiss banks and London underwriters are pushing for Japanese listings, Japanese security houses are discouraging them.

"They're afraid to lose business," said a Geneva-based banker. Still, the Japanese security houses may have a point. Like U.S. companies that list on European exchanges, Japanese companies that have listed do not expect a major increase in their foreign shareholdings. They do it to get their name around in connection with a convertible Eurobond issue, to gain prestige or to *help sell a product.*

Customers in a bank using automated teller machines.

Junghwan Chi/Camera Press

Increasing Affluence of Consumers Spurs Rapid Growth of Credit Card Industry

By Roy Garner

ONE OF the biggest changes in the financial scene in Japan in recent years — and one greatly welcomed by the financial community — is the increasing use of credit. Department store credit cards are rapidly becoming a necessary adjunct to fashionable living among the young, while older people are succumbing to the lure of instant loans from cash dispensing machines.

Japan's largest credit card company, Japan Credit Bureau or JCB, ranks fourth worldwide and intends to start issuing its cards soon in the United States and Hong Kong. The change in Japan has resulted from the affluence of the nation and an increasing awareness that borrowing can be easily carried on outside the traditional bounds of family and company, with their attendant obligations and social pressures. There has also been a publicity onslaught by Japan's major credit card companies, which include Nippon Shimpan Co., Million Card Service and Diamond Credit Co.

The switch toward credit has perhaps even gone a little too far, with industry estimates suggesting that Japan has a credit card delinquency rate of 7 to 10 percent, well in excess of the international average of about 4 percent.

Estimates of the total number of credit cards issued range from 230 million to 500 million. The industry as a whole is worth about 2 billion yen.

The increase in the use of cards has been exceptionally fast and sudden. MasterCard International, for example, saw the number of its cards in use grow to 10 million this year, from 100,000 just four years ago. About 85 percent of Tokyo households have some kind of card, according to a recent poll, although card use is often infrequent.

The latest development is the establishment of a joint credit company called Card Japan by four consumer credit companies affiliated with major electric appliance makers — Toshiba, Sanyo Electric, Sharp and Mitsubishi Electric. The new card is aimed at customers wishing to buy the products of the appliance makers on credit. The move is expected to bring response from other big appliance companies, such as Sony and Matsushita Electric Industrial.

Card Japan will be capitalized at 100 million yen and, pending approval by the Ministry of International Trade and Industry, will start business in April.

JCB, the only Japanese credit card company not partnered with any foreign enterprise, is leading the way in bringing Japan's card industry onto the international scene.

The company has completed arrangements to provide cash-advance services for its Japanese card holders in about 18 countries, and intends to issue cards in Hong Kong and in the mainland United States later this year.

Business is to be conducted through two channels of affiliated banks and Japan Air Lines booking agencies.

In the United States, cashing services are to be provided through 150 branches of Western Union in 48 states, with JCB desks open in six major cities. A notable feature of the venture will be the use of Western Union's Westar satellite to relay information about customers' credit ratings. JCB is also to cover the telephone charges of the service, and customers will be able to conduct transactions in Japanese.

Cashing services with JCB will also be available through the Overseas Trust Bank in Hong Kong, the Bank of China in mainland China, and in Singapore, Indonesia, Guam and Saipan in the Marianas Islands, and Canada.

In Europe there are to be outlets in nine countries, including an arrangement with the National Bank of Greece.

Facilities for cashing traveler's checks will be open at offices in all European Community countries except Greece. JCB will offer either a white card, with a $500 limit (or foreign equivalent), or a gold card allowing purchases of up to $1,000.

Visa, MasterCard and American Express have extensive tie-ups with Japanese credit card companies and banks. The latter institutions are fighting to regain some of the momentum they lost early in the credit card race. One of the most recent joint agreements has been between Kokumai Shimpan Co. and the U.S. MasterCard group.

Such deals are increasingly seen as survival moves in the face of intense competition.

Much interest is developing in the use of electronic credit cards with built-in integrated circuits.

These are expected to meet with a positive response from the technology-conscious Japanese.

The French remain in the lead in the development of these cards, but three Japanese companies, notably Dai Nippon Printing Co., are reported to be in an advanced stage of research and product testing.

The introduction of further technological advances in the automatic teller machine field, in integrated circuit cards and in telecommunications are expected to boost the already lively Japanese credit card business.

Automatic Tellers Have Become a Way of Life

By Tsukasa Yonemura

THE USE OF CASH dispensers and automatic teller machines has spread throughout Japan, and institutional banking and home banking transacted by means of links between bank computers and corporate or home computers have reached a new stage as a result of banking administration.

According to the seventh Survey on Branch Automation of Financial Institutions in Japan, published in March by the Institute for Financial Affairs Inc. of Tokyo, Japanese financial institutions had installed a total of 32,442 cash dispensers or ATMs by the end of September 1983. The financial institutions surveyed were the 13 "city" or commercial banks, 7 trust banks, 63 regional banks, 71 *sogo* banks (mutual loan and savings banks), 456 *shinkin* banks (credit associations) and 76 of the 468 credit cooperatives. In addition, agricultural cooperatives, labor cooperatives, post offices, credit companies and retailers employing electronic banking facilities raised the total of machines to 37,000.

Compared with the United States — whose population is almost double that of Japan — with 38,000 cash dispensers and ATMs installed by the end of December 1982, the

(Continued on Next Page)

Japanese Institutions Take Major Strides in International Syndicated Loan Market

Special to the IHT

WHERE IN the world can you raise half a million dollars, at *one* go, at a fixed interest rate?

New York, if you are the U.S. government; London, if the Eurodollar bond market is not having one of its periodic shudders. But nowhere else.

Or at least that was how it worked before July 30, when a third market showed it had reached world class — Tokyo.

That was when Canada came to the yen syndicated loan market for 120 billion yen, at the time just a few million dollars short of half a billion. A huge syndicate, led by Bank of Tokyo and Industrial Bank of Japan, with Long-Term Credit Bank of Japan, Mitsubishi Trust & Banking and Nippon Life Insurance Co. as managers, provided the funds at a fixed interest rate of 7.9 percent — equal to Japan's long-term private rate — for eight years.

Canada's borrowing was the culmination of a series of big yen loans. In March the World Bank, a traditionally heavy user of the market, came to Tokyo for 50 billion yen, arranged through a syndicate of long-term credit banks and life insurance companies. The World Bank was able to raise funds with the unusually long maturity of 12 years, and at the same time tapped a syndicate of trust banks for another 30 billion yen, also for 12 years.

The World Bank's total borrowing of 80 billion yen was followed in July by the first 100-billion-yen deal, for New Zealand, which signed a loan agreement July 6 with a syndicate led by Mitsubishi Trust & Banking.

New Zealand's large borrowing did not go unnoticed on the other side of the Tasman Sea. Three weeks later, on July 26, Australia also raised 100 billion yen. Australia went for a longer maturity — 10 years, compared to New Zealand's 8 — but paid slightly more for the longer period, 8 percent, compared to New Zealand's 7.9 percent. Five banks were joint lead managers — Nippon Credit Bank (agent), Bank of Tokyo, Industrial Bank of Japan, Long-Term Credit Bank of Japan and Mitsubishi Trust & Banking — along with one life insurance company, Nippon Life.

The World Bank, New Zealand and Australia were in turn eclipsed by Canada only four days later, and there seems no reason to think that future deals will not be even bigger. All the recent blockbusters have been provided by Japan's trust banks, long-term credit banks (including Bank of Tokyo) and life insurance companies, with a smattering of participation from foreign banks in Japan and from Japan's smaller regional banks.

So far, however, Japan's city banks — the commercial banks headed by Dai-Ichi Kangyo Bank, Fuji Bank and Sumitomo Bank and including such big banks as Mitsubishi Bank and Sanwa Bank — have yet to bestir themselves. In a banking sector where precedent and prestigious deals are important in setting the pecking order, the city banks will not be content to sit on the fence while other categories of banks win the milestone mandates. They, too, will soon be bringing 100-billion-yen borrowings to the market.

Led by the big deals, some $4.75 billion worth of syndicated yen lending has been arranged in the first eight months of this year, putting the market on track for full-year volume of a little more than $7 billion. That will make the Japanese yen the second most popular currency in international banking lending, although still a long way behind the dollar.

One of the attractions of the market for international borrowers is the remarkable standardization of loan terms. In the Eurodollar loan market, a borrower faces changing market conditions from month to month — even from week to week — and often has to haggle over his credit ratings and the price he must pay for his funds.

In the yen loan market, on the other hand, terms vary little from borrower to borrower. Most users from the market can expect to pay 0.1 percent over long-term prime, if they agree to review the base prime rate every six months. If they prefer to leave the interest rate fixed, they can expect to pay 0.2 percent or 0.3 percent over prime. The very best borrowers can raise money at long-term prime, and less familiar names at between 0.3 percent and 0.5 percent over prime.

There is a similar conformity over other conditions of yen loans. The maturity is most often 10 years, with five years' grace period before repayment of the principal amount becomes due. There are some examples of 8-year and 9-year maturities, and a few examples of maturities of 12 years (even longer maturities are available for yen denomination leases). Japanese banks by and large do not use loan maturity to respond to different classes of risk. Recent Korean borrowings have had a relatively short grace period of three years within a 10-year final maturity, but such fine tuning is the exception.

Other features are also standard. The loan amount is generally from 10 billion yen to 20 billion yen, often divided into two equal fixed-interest-rate and floating-interest-rate tranches — the trust banks, insurance companies and long term banks prefer fixed-rate assets, while the city banks prefer to extend the floating-rate loans. Two-tranche deals enable both kinds of lenders to fund the overseas borrower.

Standardization, although popular with borrowers, may yet run against the lending banks' best interests. The current lending terms do not adequately reflect the differences in lending risk faced by Japanese banks. Heavily borrowed South Korea pays little more than prime-rate Finland; Malaysia, a borrower many banks rate highly, paid the same 0.2-percent margin for its money in March as the small island nation of Nauru paid two months earlier.

Curiously, Japan's Ministry of Finance, which has been careful to monitor Japanese banks' overseas exposure to risk, has not stepped in to allow a better differentiation of reward corresponding to different degrees of risk. Quite the reverse — in late 1983 the ministry made it known that it did not like the banks' attempts to offer the best overseas borrowers loans at below long-term prime.

The authorities are worried that leaving risk differentials to be determined in the free market would give rise to worse problems than continuing with the present system of standardized terms. They feel that Japanese banks' competition for the best mandates would drive their returns down to dangerously low levels — a fear with substance, given the bank's willingness in the past to take on loans with margins Western banks found too unprofitable.

They are also worried that foreign borrowings below long-term prime would further undermine Japan's domestic interest-rate structure, which is already under pressure from other quarters. Their concern has meant that one innovation in the market, although not forbidden, has been distinctly cold-shouldered — pricing loans over base rates other than long-term prime. Only two loans this year have been priced over the cost of issuing certificates of deposit — one of 5 billion yen for Portugal in April and one of 10 billion yen for the Spanish railway authority RENFE in March.

For the time being, therefore, the authorities are content to see the market grow in volume along its present line. The only surprise left for the end of the year is how big deals can go. The answer is likely to be, very big indeed. Banks are flush with funds, insurance companies even more so. It is possible to raise 150 billion yen; maybe — if the city banks are pulled in — 200 billion yen. Next year, especially if the yen picks up on the foreign-exchange markets, there could be the first billion-dollar yen deal.

As the dollar rises, yen dealers are kept busy.

Associated Press

Automatic Tellers Become Way of Life

(Continued From Previous Page)

number of installations per capita is higher in Japan. The rate of ATM or cash dispenser installations in branches against the total number of branches is 100 percent in city and trust banks, 89.6 percent in regional banks, 81.6 percent in *sogo* banks and 74.1 percent in *shinkin* banks.

The survey reported that a total of 90 million cash cards have been issued by the financial institutions, or 165,000 per institution. The number of cards issued is expected to increase because of a new bank card combining debit and credit functions, as well as the possible development of point-of-sale cards. The survey also reported that the rate of withdrawals and deposits using cash dispensers and ATMs against total withdrawals in city banks was 72.1 percent and 43.3 percent respectively.

Such increases have enabled bank offices to reduce the number of tellers, thereby strengthening back-office operations and reducing the total number of employees. For instance, Dai-Ichi Kangyo Bank — the largest bank in Japan and the second largest in the world, according to the 1983 global banking survey compiled by the American Banker — employed 1,298 clerks in 1982, 607 in 1983 and 346 in 1984.

This trend is confirmed by decreases in the amount of personnel expenses as a percentage of total deposits. For example, those of city banks decreased from 1.28 percent in April to September 1978 to 0.81 percent in the corresponding period in 1983, and those of regional banks from 1.67 percent to 1.43 percent. These factors helped strengthen the profitability of Japanese banks in spite of the shrinking margins between loan and deposit rates at the time.

The widespread use of cash dispensers and ATMs can be attributed to the traditional inclination of the Japanese to use cash rather than checks or credit cards, as well as the development of preauthorized direct debits of payment for public utility charges, credit cards, insurance and the like. According to another survey of the institute, "How Individual Households Use Financial Institutions," 88 percent of all households in the Tokyo metropolitan area pay monthly electricity bills by means of preauthorized direct debit. Almost the same percentage paying for telephone, gas, water and television broadcasting in this manner. Forty-two percent of households receive salaries through a direct crediting system. Furthermore, 52 percent of households have credit cards, for which cardholders must have bank accounts for preauthorized direct debit in Japan.

These developments have been accelerated by the recent establishment of on-line systems for postal savings. There are 23,500 postal savings offices nationwide, even deep in rural areas, accounting for 80 trillion yen in savings, almost 30 percent of total personal deposits in Japan.

Another development in electronic banking in Japan is the rapid increases in equipping on-line teller machines, or OTMs, known as "complete transaction teller machines," comprising a computer terminal, a visual display, a printer for passbooks and slips, a note-paying machine and a coin-paying machine. This enables one teller to complete most transactions for current and time deposits without depending upon any second teller or superior. Thirty-two percent of all Japanese financial institutions have OTMs in operation. As the OTM eliminates the major shortcoming of the ATM — that it precludes the possibility of conversation with upscale customers — most bank branches expect to install OTMs within a few years.

Further developments in electronic banking, which will be realized in the not-distant future, include:

- On-line tie-ups of all private financial institutions for the use of cash dispensers will be realized within a few years. Complete tie-ups of all private financial institutions in the data communication system were realized by the entry of agricultural cooperatives, credit cooperatives and labor cooperatives into the system Aug. 13. With the completion of future tie-ups for the use of cash dispensers, customers at any given institution would become able to withdraw or deposit money at any domestic branch of any private financial institution throughout Japan; now depositors of a given institution can only withdraw money at domestic branches of the same banking group.

- Institutional banking, which connects computers of financial institutions with computers or terminals of offices or factories, will develop in accordance with directives from the Finance Ministry.

As the revision of the Public Telecommunication Law, enacted in October 1982, liberalized the use of circuits, the construction of on-line networks connecting financial institutions with corporations and households has come to provide more diversified banking services. As the banking administration of the Finance Ministry continued to treat each terminal as a separate branch, however, a third package, "Liberalization of Banking Administration 1983," approved only limited increases in off-site ATMs and installment of a restricted number of portable terminals for field staff use.

It seems that the restrictive attitude of the Finance Ministry has changed, as evidenced by the issuance of a notice from the director-general of the Banking Bureau on May 11, 1984, following the fourth package of liberalization from the banking administration. It allowed on-line processing using the cash dispensers of a corporation, point-of-sales and customers' push-button phones. Although the notice emphasizes that these deregulations are experimental ones and on-line fund transfers are limited within the same bank or within one branch of one bank, it is considered that the policy to treat each terminal as a branch has been abolished.

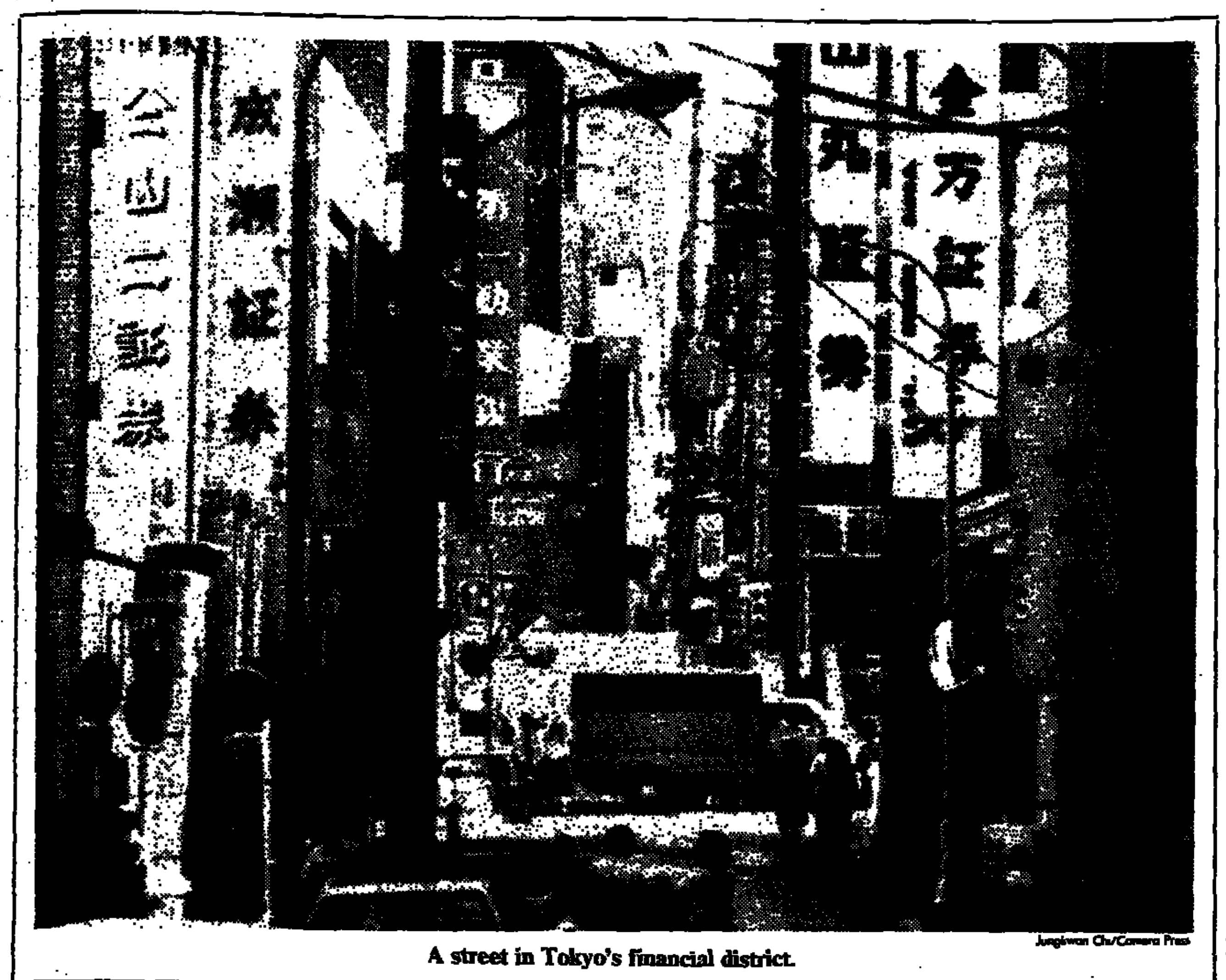
As there is increasing competition among leading banks and financial institutions to acquire corporate customers, institutional banking, whose services are currently limited to offering balance reports and general information and to answering inquiries, will develop as the ministry relaxes restrictions.

- Preparing for the implementation of home banking is also one of the banking industry's most important projects. About 50 banks and financial institutions are participating in the pilot test of videotex services in Tokyo known as CAPTAIN. After it goes into widespread commercial use in the Tokyo metropolitan area in November, consumer interest in banking services will be put to the test, though the full-scale development of video banking may not be realized until the International Network System being promoted by Nippon Telephone & Telegraph Corp. is introduced. The developments of such techniques may assist households in shopping, making reservations and, in some cases, keeping household accounts, according to a survey by the Bank of Japan.

CDs/ATMs IN JAPAN AT THE END OF SEPTEMBER, 1983

Financial Institution	Number of Branches	% with installations	Number of CDs/AMTs	Number of Cards Issued	Rate of Customer Use to Total Transaction: % deposits	Rate of Customer Use to Total Transaction: % withdrawals
City	2,909	100.0	10,753	38,379	43.3	72.1
Banks Trust	346	100.0	489	754	31.4	39.9
Banks Regional	5,546	89.6	10,357	28,237	8.0	47.5
Banks Sogo	3,386	81.6	4,857	12,079	8.2	32.7
Banks Shinkin	4,711	74.1	5,710	9,143	4.6	19.0
Banks Credit	248	9.1	276	218	5.0	8.2
Assns. Post	1,724[2]	9.1[2]	1,724[2]	1,990[1]	N.A.	N.A.
Offices Agri. Coops.	1,271[1]	4.9[1]	1,271[1]	380[3]	N.A.	N.A.
TOTAL	20,141	34.4	35,437	91,180	8.8	27.7

N.A.: Not available.
1. At the end of Jan., 1984. — 2. At the end of March, 1984. — 3. At the end of June, 1984.
Source: The Institute for Financial Affairs, Inc.



Jungkwan Chi/Camera Press

A street in Tokyo's financial district.

Looking Ahead for for the New Markets

By Barbara Rosen

AS FINANCIAL markets around the world move more and more toward deregulation, Japanese banks are among institutions most fervently seeking to diversify and internationalize their operations. The means vary with the circumstances — in some cases the banks are expanding through their own branch networks; in others they are moving for direct acquisitions of existing firms.

The biggest push to date has come from the so-called city banks, Japan's 12 or 13 mainstream commercial banks, some of which derive as much as 25 percent of their profit from outside Japan. (Bank of Tokyo, which earns about 60 to 70 percent of its profit outside Japan, is the only Japanese bank specializing in foreign exchange, and is sometimes grouped with the city banks.)

Many of the city banks say they are working to increase the proportion of their profits earned abroad, though they believe it would be too risky to attempt to bring the amount above 50 percent.

The city banks appear set to use whatever means necessary to break into new markets. Observers also expect to see more internationalization among the larger of Japan's regional commercial banks as well as the trust banks, but say these are likely to move more slowly and less aggressively than the city banks.

Pressure to expand comes from several sources, notably expected deregulation in Japan's domestic financial markets, producing greater competition at home, and a need for the banks to follow their corporate customers into new geographic and financial-service areas. Over the last decade, Japanese companies that had depended largely on banks' funds for their financing have been steadily increasing their liquidity, forcing the banks to seek both more clients and new means of satisfying their customers' needs.

Some Japanese banks have been talking with Western financial institutions with a view toward increasing their expertise in funds management. In August, Bank of Tokyo International Ltd. in London, a subsidiary of Bank of Tokyo Ltd., announced a joint venture in fund management with the London investment house Touche, Remnant & Co. that will cater, at least initially, to institutional clients.

In addition to fund management, Japanese banks' main target areas for diversification appear to include other types of corporate finance, developing securities underwriting business and increased access to European capital markets. Geographically, the United States and Europe, particularly Switzerland, are the areas most often mentioned for potential Japanese expansion.

Japanese banks must also in their own right establish relationships with new customers and in new financial areas, said a senior official at Mitsubishi Finance International Ltd. in London, a wholly owned subsidiary of Mitsubishi Bank Ltd. "Otherwise we will always remain as investors, but never as organizers of international finance," he said.

Where the Japanese banks can expand is dictated largely by various government regulations. How they expand — whether by increasing their own networks or by outright acquisition — depends largely on cost and the speed at which the new operations are required.

Generally speaking, "they would prefer to build the business up" from scratch, said Christopher Phillips, an investment analyst at P-B Securities, Down, de Boer and Duckett Ltd. in London. But, he said, "The time scale and the necessity of having [for example] a retail deposit business in the United States and an issning presence in Switzerland" has led several Japanese banks into the direct acquisition route.

By their own admission, Japanese banks often tend to move in a sort of convoy, following each other into new areas. Over the last five years or so, five Japanese banks have made major acquisitions in the United States, most of them West Coast banks with the exception of Fuji Bank Ltd.'s purchase of the Walter E. Heller & Co. and Walter E. Heller Overseas Corp. commercial finance network, completed last January.

The Heller purchase, a Fuji Bank official in London said, offered "a kind of loophole" around U.S. restrictions preventing the banks from expanding outside their home, or primary, U.S. state. Heller offered Fuji access to a geographically widespread market in the United States, as well as to the smaller and medium-sized corporate customers that Japanese banks say it is difficult to reach. Whether more Japanese banks will follow further into the United States along these lines is open to question.

Bank of Tokyo, for one, appears largely content with the size of its present U.S. operations, as well as those in Europe. "We have made a continuous effort to expand internationally," said the official in London, "so our network is almost complete."

Some Japanese banks have been actively seeking a commercial finance purchase along the lines of the Heller deal, according to Larry McCoy, a banking analyst at T. Rowe Price Associates Inc. in Baltimore. But, analysts and bankers say, the list of available and attractive potential targets is limited and prices are high. Fuji paid $425 million for Heller and has said it will not take any profit out of the company for at least two years.

Sumitomo Bank is understood to have been among those actively seeking a commercial finance network in the United States, but has found the prices for attractive companies too high, said a senior official at Sumitomo Bank Ltd. in London. He added, however, that the bank was still looking for a small bank or commercial finance company to provide the desired access to the middle tier of the market, in the United States or elsewhere.

Earlier this year, Sumitomo Bank Ltd. bought a 52.67-percent stake in Banca del Gottardo in Switzerland. (The stake was previously held by Banco Ambrosiano Holdings (Luxemburg) S.A., a subsidiary of Banco Ambrosiano in Milan. It was the first acquisition of a European bank by a Japanese bank and signaled an aggressive move by a Japanese city bank to develop, outside Japan, both a capability in fund management and a leadership role in securities business, according to Stephen Brisby, a director of J. Henry Schroder Wagg & Co. Ltd., the merchant bank that arranged the purchase.

Sumitomo had been looking into the Swiss market for more than five years before Gottardo became available, the Sumitomo official said. "The Japanese regard Switzerland as a very stable, secure, healthy market," said Simon Smithson, an investment analyst at the London brokerage Grieveson Grant & Co.

More than 90 percent of Sumitomo's business is in traditional commercial banking services (taking deposits and lending money), the Sumitomo official explained, and Gottardo offered ready-made access to fund management, underwriting and managing Swiss franc bonds, foreign currency and gold and precious metals exchange and trade and commodity finance.

"Our direction in the future is to diversify into universal banking," the official said, and this goal is impeded in the domestic Japanese market by government restrictions.

Gottardo can act as lead manager on equity issues by Japanese companies, which Japanese city banks are prohibited by law from doing. People are watching to see if the Gottardo purchase prods the Japanese Finance Ministry into further deregulation.

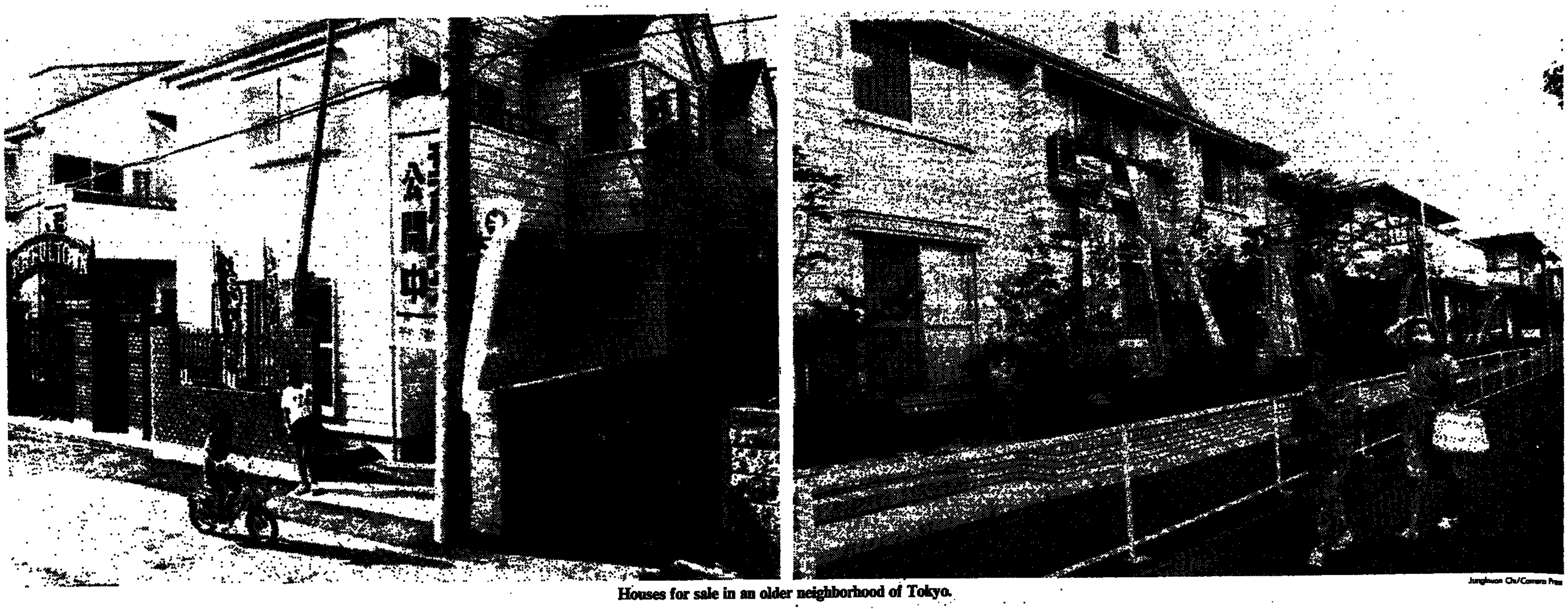
"Since announcing that transaction we have had a number of inquiries from Japanese financial institutions keen to study the opportunities that exist for buying into the securities/banking business in Switzerland," Mr. Brisby said. It is understood that the Mitsubishi banking group, for one, is examining the possibility of a similar purchase.

But however great the demand, opportunities like Gottardo appear to be in short supply. The Japanese banks "are not following each other into Switzerland because there is very little available to buy there," Mr. Brisby said.

Between limited supply and various government restrictions posed by Japan and other countries, "it's going to be few and far between the acquisitions that are made in Europe by Japanese banks," he predicted.

There has also been some talk of Japanese banks looking for acquisitions among the smaller of London's merchant banks. While some banks admit interest, they say the available prospects are not many. Unlike Japanese securities houses, the banks also do not appear to be seeking any major stakes in the deregulating London securities market, stating that there seems little point without direct access for them to the domestic Japanese securities market in sight. Besides, the bankers add, all the best available London brokers and stockjobbers have already been tied up.

"There are lots of other things to do before we buy jobbers and brokers," said the Mitsubishi official. As for London acquisitions by Japanese banks, at least in the short term, "I don't think very much is likely to happen," said Mr. Smithson at Grieveson Grant. Instead, analysts say, more joint ventures and information exchanges on fund management are likely to appear.



Jungkwon Chi/Camera Press

Houses for sale in an older neighborhood of Tokyo.

Big Real Estate Firms Compete in Market for Old Housing

By Jack Burton

WHEN THE giant U.S. real estate company Century 21 announced a year ago that it was entering Japan, small real estate agencies there were comparing the event to the arrival of Commodore Matthew Perry's "black ships" in 1853 — a foreign intrusion that threatened their way of life.

What the real estate agencies were objecting to was not so much Century 21's American origins (in fact, Century 21 Japan is 100-percent Japanese-owned, with the biggest shareholder being the C. Itoh & Co. trading house), but the entry of large real estate corporations like Century 21 into an area dominated by mom-and-pop operations.

The market being coveted by Century 21 and others is the trade in second-hand housing, which is booming in Japan. The Japanese have come to prefer used or old dwellings because they are cheaper than new housing, whose cost has risen dramatically (doubling in the last decade) with the shrinking amount of land available for construction.

The average price for a new home in an urban area is 35 million yen, and that figure excludes the price of the land, which may be as high as 650,000 yen a square meter in a desirable location such as central Tokyo.

Another factor contributing to the relative inexpensiveness of used housing is that Japan is enjoying a housing surplus of more than three million units, making it a buyer's market.

One optimistic forecast projects that the used-house market, now valued at 4 trillion yen, will rise to 10 trillion yen within a decade, matching the investment in new-home construction.

Almost 70 percent of used-housing transactions are handled by small real estate agencies, called *fudosan-ya*. These family-run offices, their windows covered with housing notices, are a fixture in Japanese urban neighborhoods. There are more than 100,000 fudosan-ya in Japan, bringing in an average income of about 10 million yen.

The fragmented nature of the market, however, has made the fudosan-ya vulnerable to major real estate companies, which possess greater organizational clout.

Major Japanese real estate firms such as Mitsui, Sumitomo and Tokyu, which made their fortunes in the construction of apartment blocks and office buildings, have expanded their operations into the home resale market following a decline in housing starts that began in the mid-1970s.

Last year, of the 177,000 homes resold in Japan, 17.5 percent were handled by the top 15 real estate companies. A further 14 percent were sold through Japan's eight trust banks, which are permitted by law to engage in the real estate business. Sales handled by real estate companies and trust banks are growing at an annual rate of more than 10 percent, compared to 6 percent for fudosan-ya.

The news of Century 21's entry into the market highlighted the competitive threat posed by the major real estate networks in the eyes of the National Federation of Real Estate Transaction Associations (NFRETA), which represents the fudosan-ya.

Hiroaki Inoue, general manager for business planning and development at Century 21 Japan, said the fudosan-ya "want to become part of us to protect themselves" against Japanese real estate companies that handle sales out of branch offices rather than relying on affiliated fudosan-ya. Century 21 operates on a franchise system, enrolling fudosan-ya into its network on the basis of a 1-million-yen initiation fee plus a 6-percent royalty on gross commission revenues. Mr. Inoue added that the vast majority of the 300 outlets that Century 21 plans to establish over the next two years in Tokyo and Osaka will be members of the NFRETA.

But the NFRETA said that, although the franchise system may benefit a few of the fudosan-ya, it poses a threat to the remaining real estate agencies. The association said that a Century 21 franchise office would, for example, cover a bigger territory than a normal fudosan-ya office and thus would take away business from other, nearby fudosan-ya. The association is considering the idea of setting up its own franchise operation to stay competitive.

Mitsui Real Estate Sales, Japan's largest real estate company with 9 billion yen in used-housing sales last year, and Jutsu, a Tokyo-based real estate company affiliated with the U.S. company Electronic Realty Associates, are already operating franchise networks with 75 and 100 offices, respectively. Century 21, which formally began operations in July, has 25 offices.

Century 21 believes that the future of the home resale market lies with it and other franchise operations because of two factors: It is using established real estate agents who have an intimate knowledge of their neighborhood market, and franchise operations establish a prominent corporate identity, something that the Japanese look for in doing business.

A well-known company usually instills respect and trust in Japan.

That image of security is especially important in the real estate market; there have been numerous complaints by home buyers that the fudosan-ya do not assume responsibility for defects found in dwellings after they are sold.

Century 21's sales offices will have a uniform design and its salesmen will dress in identical rust-golden jackets to create an aura of corporate solidity.

It hopes that its image will be further heightened by a major television advertising campaign that will begin this fall. And it will offer guarantees to buyers concerning the condition of homes it has sold.

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International Herald Tribune

BUSINESS/FINANCE

EUROBONDS

New York Bond Rally Stirs Ecstasy Among Underwriters

By CARL GEWIRTZ
International Herald Tribune

PARIS — The Eurobond market went through one of its manic phases last week — at first bewailing the relative scarcity of new dollar-denominated paper, then bemoaning an overabundance and finally deciding to nibble at the new offerings.

The key factor in turning sentiment positive was a quarter-point decline in overnight money costs in New York, which market participants read as a confirmation that the Federal Reserve is prepared to allow interest rates to ease.

A clutch of favorable U.S. economic statistics announced Friday fueled the optimism and turned the agony of underwriters of dollar Eurobonds to near ecstasy as the price on new issues moved within the commissions, leaving bankers some profit on their new deals.

The good news from the statistics included a large $2.1-billion drop in the money supply, a decline for the second consecutive month in retail sales and a shallow 0.2-percent rise in industrial production. Together it was interpreted as giving the Fed more room to allow interest rates to decline further.

"It is likely that the federal funds rate [the cost of overnight funds], which had been drifting up beyond 11¾ percent, [will] remain in the 11 to 11½ percent range for the time being," Henry Kaufman, Salomon Brothers's chief economist, said Friday.

That bellwether rate fell to 11⅜ percent on Friday before closing at 11½ percent.

The economic data fueled a powerful rally in the New York bond market and that, in turn, made the terms on the recent Eurodollar bonds suddenly look more appealing. As a result, underwriters who earlier in the week had been wringing their hands about the plethora of unsold Eurobonds were suddenly exultant that the paper could now be sold at a profit.

THE terms on the new issues initially drew criticism for being too aggressive and substantial price declines appeared to wipe out any profit for underwriters in some cases. But by Friday, the New York rally had validated the offering terms.

However, it was noteworthy that the bond rally in New York, which suffered a slight setback late Friday on profit-taking, far outpaced the recovery here. The much greater strength of the New York rally meant that the gap in yields between Eurobonds and Treasury rates shifted.

IBM's three-year notes, for example, which were launched a week earlier at 53 basis points below the yields on T-bills, ended last week at only 39 basis points lower. And issues such as Disney, launched here at about 20 basis points over the Treasury's cost of money, ended the week 40 basis points higher.

While this gives Eurobond investors a more reasonable return relative to Treasury yields, bankers noted that it also reduces the incentive for U.S. companies to raise money here. On the basis of Friday's prices, bankers noted that the yield differential between Eurobonds and the U.S. Treasury market had been cut in half from the level that prevailed earlier in the week.

This still makes it cheaper for U.S. companies to raise money here. But the saving for a top quality issuer is now seen at around 30 basis points compared to the more compelling 60 basis points previously. The obvious question is whether prices in the Eurobond market can be expected to rally enough to restore that earlier competitive advantage with New York. On this point there are doubts.

Continental bankers report that private investors are not currently big buyers of dollar Eurobonds and there were suspicions that a good part of the rise in prices last week was due to dealers raising their quotes following the trend in New York rather than the result of increased demand.

These bankers say that their clients do not have much confi-

(Continued on Page 21, Col.1)

Eurobond Yields
For Week Ended Sept. 12

U.S.$ lg term, Int'l inst.	12.80 %
U.S.$ long term, ind.	12.79 %
U.S.$ medium term, ind.	12.80 %
Can.$ medium term	13.22 %
French Fr. medium term	12.41 %
Yen lg term, Int'l inst.	7.58 %
ECU short term	10.38 %
ECU medium term	11.12 %
ECU long term	11.34 %
EUA long term	9.54 %
FLx lg term, Int'l inst.	10.76 %
FLx medium term	10.59 %

Calculated by the Luxembourg Stock Exchange.

Market Turnover
For Week Ended Sept. 14
(Millions of U.S. Dollars)

	Total	Dollar	Non-dollar Equivalent
Cedel	9,984.70	8,665.40	1,319.30
Euroclear	21,466.30	20,406.90	1,059.40

Japan's Expo '85: A Leap to the Future

Tokyo Is Seeking Lead In Basic Science Field

By Andrew Pollack
New York Times Service

TSUKUBA, Japan — On the outskirts of town, Sony is erecting what it calls the world's largest television screen.

Best viewed from two city blocks away, the screen, or Jumbotron, measures 82 feet (25 meters) high by 130 feet wide.

Nearby is a building, shaped like an oyster with a pearl, in which robots will play games with visitors. Yet another building will feature a tomato plant, grown in water instead of soil, with 10,000 tomatoes on it.

All this will be part of Japan's Expo '85, a science and technology fair that the Japanese hope will establish their nation as a world leader in basic science. Opening in March, Expo '85 will be the coming-out party for Tsukuba Science City, a new town created from forests and farms as an oasis of Japanese science.

But while Expo '85 adds to Japan's renown, its sponsors also hope that the fair and its crowds will add some excitement to a planned metropolis that tends to be all too gray. For all its awesome laboratories and impressive resources, the Science City leaves its resident researchers wistful for Tokyo.

The vast effort to make science bloom at Tsukuba highlights Japan's problems in basic research. The nation's success in consumer electronics, telecommunications and ceramics is widely acknowledged, but equally widespread is the feeling that Japan's technological success has come through piggybacking on innovations made elsewhere.

If Japan is to continue its progress, the reasoning goes, it must extend the frontiers of science and create new technology, largely through basic scientific and engineering research. But that task will require more than money or government decree. Many industrial executives and academic researchers say that Japan's social fabric must change, and that cannot happen overnight.

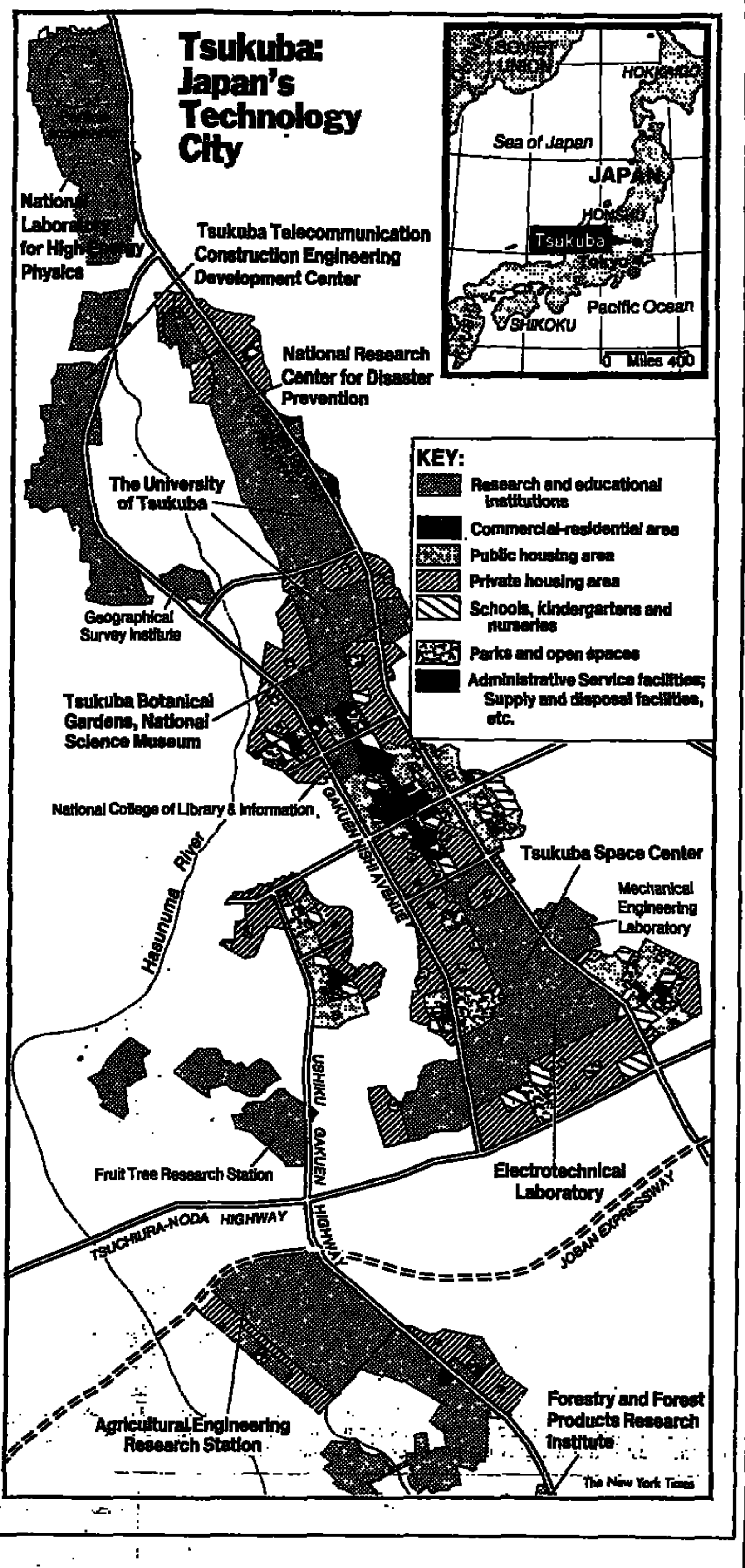
Tsukuba Science City is intended to provide a somewhat different fabric. The government embarked on the project in 1963, both to create a city dedicated to research and to move population out of overcrowded Tokyo to the undeveloped countryside.

Tsukuba, 40 miles (65 kilometers) northeast of Tokyo, clusters all of its scientists together in modern surroundings, housing 46 national research facilities and more than a third of Japan's government researchers. The government has already spent more than $5.3 billion to turn the sparsely populated region into a showplace of technology.

The results are undeniably impressive. The modern laboratories are a world away from the cramped, antiquated buildings that many researchers left behind in Tokyo.

At the National Laboratory for High-Energy Physics, for example, a particle accelerator two miles in circumference is being built for the study of subatomic physics. At the Institute for Agro-Biological Resources, 50,000 seed species are kept in frozen storage for breeding experiments. At the Electrotechnical Laboratory, researchers are working on

(Continued on Page 21, Col. 5)



Some GM Plants Struck as Union Resumes Talks

Reuters

DETROIT — General Motors Corp. and the United Auto Workers union were resuming talks Sunday on contract negotiations amid weekend strikes by about 62,000 workers at 13 general assembly plants.

The union had threatened a strike by 350,000 workers at 147 locals across the United States if an accord on the contract was not reached by midnight last Friday, the expiry time for the previous contract.

But after the failure to reach an accord on job security and wages in the final hours of bargaining on Friday, the union said it was not calling a companywide strike and would tell its other members to continue to work as negotiations continue for a new national agreement.

Output of vehicles was barely affected by the strikes, however, because few weekend shifts had been scheduled. But industry analysts said a continuation beyond the weekend could cost the company about $150 million a week.

The union said the strikes were authorized at plants in Michigan, New Jersey, Texas, Missouri, Louisiana, Kentucky, California, Delaware and Georgia.

The walkouts were being conducted as local strikes based on local issues, according to union officials.

Talks on Friday between GM, management and the union brought "progress in some areas," according to a company spokesman.

Job security is the union's main concern in the new contract, with wages as a secondary issue.

"Despite our repeated warnings the time was running dangerously short," Owen Bieber, UAW president, said on Friday, "the corporation delayed and stalled on the key issues, most importantly on job security, and we have been unable to arrive at a satisfactory agreement."

■ Talks Are Called Important

Earlier, James Risen of the Los Angeles Times reported from Detroit:

This year's auto contract talks carry even broader political and economic implications for the United States than they have in previous years. Not only are the GM contract talks quite likely to help set the tone for coming labor negotiations in other major industries that are emerging from the recession, but the talks could have some bearing on the outcome of the presidential election.

"The longer a GM strike goes, it gets to be a bigger and bigger thing, as suppliers shut down, and you start to get secondary effects, and people who have no direct connection to the auto industry start to be hurt," said David Monroe, an economist with GM in New York.

Some observers have warned that a bitter strike by the UAW, which has thrown its full support behind the Democratic presidential candidate, Walter F. Mondale, could hurt Mr. Mondale's chances of unseating President Ronald Reagan.

For the auto companies themselves, the size of the GM settlement, likely to set a pattern for the union's coming talks with Ford Motor Co.

Dollar's Continuing Rise Prompts New Theories

By Robert A. Bennett
New York Times Service

NEW YORK — Just last February, it was fashionable in financial circles to brood about the imminent collapse of the dollar. The only question seemed to be whether it would be a hard or a soft landing.

But rather than plummeting, the dollar soared. Last week it was stronger than ever. It rose to record levels against the British pound, the French franc and the Deutsche mark.

By the reckoning of previous years, the recent rise should not have happened. When interest rates in the United States decline, the dollar also is expected to decline. But the dollar's recent surge has occurred even though American interest rates have been moderating as of late.

The whopping July trade deficit should also have depressed the dollar. Traditionally, the dollar declines when the trade deficit rises, because the gap between imports and exports ultimately must be financed, usually by pumping dollars into foreign money markets.

A growing number of economists, foreign-exchange traders and bankers are beginning to reassess their basic views on why the dollar is so strong.

"The skeptics are coming around," said Alan Meltzer, professor of economics at the Carnegie-Mellon University in Pittsburgh. "They are beginning to understand that foreigners, like Americans, are investing in the United States because this is where the profit potential is."

There is a growing sense that the dollar's strength is a reflection of a more permanent change in America's competitive position in the world. The dollar will continue to have its ups and downs, according to the new thinking, and there may even be a downward "correction." But, according to this analysis, the dollar has reached an appropriate plateau and it is not likely to plummet to former levels.

Those who hold this view — and

(Continued on Page 21, Col.4)

Currency Rates

Late interbank rates on Sept. 14, excluding fees.
Official fixings for Amsterdam, Brussels, Milan, Paris. New York rates at 4 P.M. EDT.

	$	£	D.M.	F.F.	H.L.	Gldr.	B.F.	S.F.	Yen
Amsterdam	3.41	4.325	112.69 *	36.70 *	0.1829	—	5.598 *	136.36 *	138.92 y
Brussels (a)	60.79	77.27	20.1198	6.5515	3.263 *	17.857	—	24.34	24.782 *
Frankfurt	3.026	3.848	—	32.58 *	1.623 x	88.69 *	4.97 *	121.10 *	1.2335 *
London (b)	1.2655	—	3.838	11.7818	2,362.58	4.3285	77.22	3.1725	310.90
Milan	1,866.60	2,365.90	616.77	200.76	—	547.16	30.619	744.51	7.59
New York (c)	—	1.2644	3.0375	9.3175	1,871.00 *	3.427	61.155	2.51	245.75
Paris	9.291	11.795	306.95 *	—	4.9825 x	272.47 *	15.264 *	371.28 *	3.7828 *
Tokyo	245.275	312.18	81.16	26.47	13.20 *	72.12	403.21 *	98.05	—
Zurich	2.504	3.1745	82.605 *	26.925 *	0.1341	73.39 *	4.1191 *	—	1.02 *
1 ECU	0.7426	0.5844	2.246	6.8932	1,382.70	2.5304	45.1958	1.8565	182.209
1 SDR	1.00319	0.78805	N.Q.	9.29777	1,866.78	N.Q.	60.9091	2.5025	244.847

Dollar Values

$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$
0.831	Australian $	1.2034	1.074	Irish £	0.9766	0.4624	Singapore $	2.1627
0.0471	Austrian schilling	21.245	0.0027	Israeli shekel	364.165	0.602	S. African rand	1.6612
0.0163	Belgian fin. franc	61.335	3.3512	Kuwaiti dinar	0.2984	0.0012	S. Korean won	813.40
0.761	Canadian $	1.314	0.4255	Malay. ringgit	2.35	0.0059	Span. peseta	169.85
0.0911	Danish krone	10.975	0.1168	Norw. krone	8.5625	0.1167	Swed. krona	8.5675
0.1599	Finnish mark	6.2525	0.0553	Phil. peso	18.0695	0.0256	Taiwan $	39.07
0.0084	Greek drachma	119.03	0.0064	Port. escudo	156.922	0.0435	Thai baht	22.975
0.1272	Hong Kong $	7.8605	0.2823	Saudi riyal	3.542	0.2723	U.A.E. dirham	3.6725

£ Sterling: 1.2391 Irish £

(a) Commercial franc (b) Amounts needed to buy one pound (c) Amounts needed to buy one dollar (*) Units of 100 (x) Units of 1,000 (y) Units of 10,000
N.Q.: not quoted; N.A.: not available

EC Ministers Agree to Alter ECU Makeup

Reuters

ENNIS, Ireland — European Community finance ministers altered Sunday the relative values of their currencies within the European Currency Unit without changing the ECU's level against the U.S. dollar, Irish officials said Sunday.

The main change in the ECU, which represents a basket of nine different European currencies, is a reduction in the weight of the Deutsche mark and other strong currencies in the unit and the incorporation of the Greek drachma in the system.

In a communiqué, the ministers said the revision was made to take into account changes in economic circumstances. The revised ECU will take effect from Monday.

The change is the first since a realignment of the European Monetary System in March last year to reduce pressure on a weak French franc.

The ECU was devised primarily as an accounting tool for the European Community but has gained increasing importance in recent years as a currency in its own right.

The mark will remain the largest constituent currency in the ECU but its weight will be reduced from 37.7 percent to 32 percent.

The following are the relative percentage weights of the 10 currencies in the ECU, with weights at the last realignment on March 22, 1983, in brackets: Deutsche mark 32.0 (37.7); French franc 19.0 (16.93); Sterling 15.0 (14.05); Dutch guilder 10.1 (11.46); Belgian/Luxembourg franc 8.5 (8.57); Italian lira 10.2 (7.86); Danish krone 2.7 (2.70); Irish pound 1.2 (1.06); Greek drachma 1.3.

■ New Kettle of Fish

A French official, explaining the change, told the Herald Tribune to think of the ECU as a fish terrine, composed of expensive sole and cheaper red mullet. The terrine now has less sole and more red mullet but sells for the same price as before in terms of francs or marks.

Treasury Bond, Note Prices Decline

By Michael Quint
New York Times Service

NEW YORK — After rising for seven consecutive trading days, prices of Treasury notes and bonds declined on Friday.

Although economists said that data for August pointed toward slower economic growth, continued low inflation and less upward pressure on interest rates, those developments were not enough to extend

U.S. CREDIT MARKETS

recent price gains. Traders attributed the drop in prices to heavy selling.

"There was a lot of profit taking following the gains of recent days," said Joseph Bench, at Shearson Lehman/American Express Inc. "But I expect the rally will resume."

When bond prices rose as much as 4⅜ points between Sept. 5 and last Thursday, analysts said there was much anticipation of weak economic data for August. The data published on Friday were even weaker than expected, with retail sales for August falling by eight-tenths of 1 percent and industrial production rising only two-tenths of 1 percent. The producer price index for August fell one-tenth of 1 percent.

By late in the day, the Treasury's 12½ percent bonds due in 2014 were offered at 102⅜, down nearly a point, to yield 12.20 percent. On Sept. 5, the bellwether Treasury bond traded as low as 98⅞, to yield 12.64 percent. In advance of Wednesday's auction of new two-year Treasury notes, securities dealers offered the issue with a yield of 12.11 percent.

Short-term interest rates were mixed, with Treasury bill rates rising, while rates declined for most other short-term securities.

While many market participants are optimistic that weaker economic data will lead to lower interest rates, their enthusiasm was tempered by other developments.

A large increase in the money supply data to be announced on Thursday would reduce the chances of an aggressive move by the Fed to promote lower interest rates, traders said.

Analysts also warned that technical factors, such as a large buildup in the Treasury's cash balance after the mid-September corporate tax payments, might also drain reserves from the banking system.

Despite the rally in the bond market, large corporations were reluctant to sell fixed-rate, long-term domestic issues. Financings late in the week included $100 million of convertible debentures by USAir Group Inc., with a coupon of 8¾ percent and a conversion price of $34.48, or about 20 percent higher than the stock price.

U.S. Consumer Rates
For Week Ended Sept. 14

Passbook Savings	5.50 %
Tax Exempt Bonds: Bond Buyer 20-Bond Index	10.10 %
Money Market Funds: Donoghue's 7-Day Average	10.68 %
Bank Money Market Accounts: Bank Rate Monitor Index	9.79 %
Home Mortgage: FHLB average	15.01 %

International Bond Prices - Week of Sept. 13

Provided by White Weld Securities, London, Tel.: 623-1277; a Division of Financière Crédit Suisse-First Boston

Prices may vary according to market conditions and other factors.

(Continued from Page 6)

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Ave Life	Yield Curr
dm 100	Austria	8	'93 Jul	102	7.67		7.84
dm 200	Austria	7¾	'94 Mar	97¾	7.96		7.[illegible]
dm 100	Austrian Control Bank	8	'84 Dec	100¼	6.61		7.98
dm 150	Austrian Control Bank	11	'86 Oct	105	8.34		10.48
dm 150	Austrian Control Bank	7¾	'86 Dec	100¼	[illegible]		7.44
dm 150	Austrian Control Bank	8	'87 Feb	102	7.[illegible]		7.84
dm 150	Austrian Control Bank	9	'87 May	102½	7.[illegible]		8.78
dm 150	Austrian Control Bank	8½	'88 Nov	102½	7.76		8.29
dm 100	Austrian Control Bank	6½	'88 Dec	97	7.33		6.70
dm 100	Austrian Control Bank	8¾	'89 Sep	104	7.87		8.51
dm 100	Austrian Control Bank	7¾	'89 Oct	100½	7.25		7.34
dm 150	Austrian Control Bank	7¾	'91 Feb	99¼	7.76		7.68
dm 150	Austrian Control Bank	10½	'91 Nov	108	8.57		9.38
dm 150	Austrian Control Bank	9¼	'92 Apr	106½	8.66		8.69
dm 150	Austrian Control Bank	8¾	'92 Jul	101¾	7.93		8.11
dm 55	Austrian Electricity	7	'87 Feb	100½	6.74	6.57	6.97
dm 80	Donaukraftwerke Ag	6¾	'88 Mar	100¼	4.45	6.61	6.73
dm 100	Donaukraftwerke Ag	8	'94 Jul	100¼	7.96		7.98
dm 100	Draukraftwerke Ag	8¾	'85 Mar	100½	7.45	7.43	8.71
dm 100	Genossen Zentralbank	6	'87 Dec	97¼	6.79	7.41	6.14
dm 50	Giroz Bank Sparkassen	8¾	'87 Jun	101¾	8.18		8.72
dm 80	Giroz Bank Sparkassen	10¾	'91 Jul	112	8.35		9.60
dm 50	Kelag Koernten Elekt	6¾	'88 May	97¼	6.81	6.87	6.77
dm 50	Pyhrn Autobahn	6¼	'89 Sep	97½	6.86	7.21	6.41
dm 70	Tauernautobahn Ag	5½	'93 Apr	90	7.09	8.18	6.11
dm 50	Tauernautobahn Ag	9¾	'94 Mar	109	8.44		7.86
dm 100	Vienna City	9¾	'92 Aug	106	8.30	8.05	8.84
dm 100	Voest-Alpine	8½	'85 Jun	101	6.94	6.94	8.42
dm 100	Voest-Alpine	8½	'88 Oct	100¼	8.27	8.09	8.44
dm 100	Voest-Alpine	6¾	'89 Jun	97¼	7.45	7.89	6.94

BELGIUM

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Ave Life	Yield Curr
dm 100	Belgelectric Finance	10½	'89 Jun	106½	8.74		9.86
dm 100	Belgelectric Finance	11	'91 Oct	111¾	8.70		9.84

CANADA

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Ave Life	Yield Curr
dm 200	Canada	8½	'89 Apr	106¼	6.86		8.00
dm 100	Air Canada	9	'92 Aug	106¾	7.82		8.43
dm 100	Air Canada	7¾	'93 Jun	101	7.21		7.30
dm 100	Amoco Intl	8¾	'91 Dec	100¾	8.30		8.19
dm 100	Brascan Intl	8½	'88 Oct	101½	8.05	7.71	8.37
dm 100	Canadian Imperial Bk	7	'88 May	99½	7.14		7.04
dm 100	Manitoba Hydro-Electr	6¾	'87 Jun	99¼	7.04	7.18	6.80
dm 200	Manitoba Province	7¾	'93 May	100¾	7.25		7.32
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Ave Life	Yield Curr
dm 200	Quebec Hydro-Electric	6½	'87 Aug	98¾	6.98	[illegible]	[illegible]
dm 150	Quebec Hydro-Electric	6¼	'87 Dec	98¾	6.68	[illegible]	[illegible]
dm 100	Quebec Hydro-Electric	6½	'88 Mar	98½	6.98	[illegible]	[illegible]
dm 150	Quebec Province	7½	'87 Feb	100¾	7.12	[illegible]	[illegible]
dm 150	Quebec Province	7¾	'87 Jun	100¾	7.12	[illegible]	[illegible]
dm 100	Quebec Province	6½	'87 Jul	101	6.09	[illegible]	[illegible]
dm 150	Quebec Province	6	'90 May	95¾	7.04	[illegible]	[illegible]
dm 200	Quebec Province	7½	'91 Apr	101¼	7.34	[illegible]	[illegible]
dm 150	Quebec Province	10¾	'91 Sep	111¾	8.45	[illegible]	[illegible]
dm 150	Quebec Province	10¾	'92 Feb	110¾	8.12	[illegible]	[illegible]
dm 100	Royal Bank Of Canada	7¾	'90 Aug	100½	7.64	[illegible]	[illegible]

DENMARK

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Ave Life	Yield Curr
dm 100	Denmark	5¾	'85 Feb	100	5.65	[illegible]	[illegible]
dm 100	Denmark	7¾	'86 Feb	102	6.28	[illegible]	[illegible]
dm 100	Denmark	7¼	'87 May	101	6.81	[illegible]	[illegible]
dm 100	Denmark	6¾	'87 Dec	99¼	7.00	[illegible]	[illegible]
dm 100	Denmark	6	'88 Feb	95	7.72	[illegible]	[illegible]
dm 100	Denmark	10	'88 Mar	105¾	8.08	[illegible]	[illegible]
dm 100	Denmark	7¾	'88 May	100¾	7.49	[illegible]	[illegible]
dm 100	Denmark	6½	'89 Feb	95	7.88	[illegible]	[illegible]
dm 100	Denmark	9¾	'89 Mar	104¾	7.92	[illegible]	[illegible]
dm 150	Denmark	7¾	'89 Apr	100	7.61	[illegible]	[illegible]
dm 100	Denmark	9½	'90 May	103¾	8.41	[illegible]	[illegible]
dm 100	Denmark	8¾	'92 Feb	100¾	8.19	[illegible]	[illegible]
dm 100	Denmark	10¾	'92 Mar	108¾	8.57	[illegible]	[illegible]
dm 100	Denmark	8	'93 May	99¼	8.11	[illegible]	[illegible]
dm 150	Denmark	7¾	'94 Apr	97¾	8.27	[illegible]	[illegible]
dm 75	Copenhagen City	5¾	'84 Dec	99¾	6.61	[illegible]	[illegible]
dm 100	Copenhagen City	7¾	'86 Apr	102¾	5.81	[illegible]	[illegible]
dm 75	Copenhagen City	7½	'86 Dec	100	7.48	[illegible]	[illegible]
dkr 225	Copenhagen City	6¾	'87 Sep	98¾	7.51	[illegible]	[illegible]
dm 75	Copenhagen City	6	'90 Nov	94½	7.13	[illegible]	[illegible]
dm 100	Copenhagen City	8½	'94 Jan	102	8.17	[illegible]	[illegible]
dm 40	Copenhagen Telephone	7½	'87 Jan	100¾	7.11	[illegible]	[illegible]
dm 75	Copenhagen Telephone	7	'87 May	99¾	7.08	[illegible]	[illegible]
dm 60	Copenhagen Telephone	6½	'88 Apr	99¾	6.56	[illegible]	[illegible]
dm 100	Copenhagen Telephone	8¾	'93 Jul	102¾	8.37	[illegible]	[illegible]
dm 70	Den Danske Bank	8¾	'86 Nov	100½	7.97	[illegible]	[illegible]
dm 40	Jutland Telephone	6¾	'87 Mar	98½	7.41	[illegible]	[illegible]
dm 40	Jutland Telephone	7¾	'88 Feb	99	7.57	[illegible]	[illegible]
dm 50	Jutland Telephone	8½	'90 Feb	101½	8.13	[illegible]	[illegible]
dm 80	Mortgage Bank Denmark	7½	'84 Nov	100¼	5.43	[illegible]	[illegible]
dm 100	Mortgage Bank Denmark	7	'88 Jul	99½	7.14	[illegible]	[illegible]
dm 150	Mortgage Bank Denmark	8½	'90 Jul	101¾	8.10	[illegible]	[illegible]
dm 100	Mortgage Bank Denmark	10½	'91 Nov	110¾	8.51	[illegible]	[illegible]
dm 100	Mortgage Bank Denmark	8¾	'93 Feb	102	8.15	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FINLAND

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FRANCE

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NETHERLANDS

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NEW ZEALAND

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NORWAY

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PHILIPPINES

[illegible]

SOUTH AFRICA

[illegible]

SOUTH AMERICA

[illegible]

SPAIN

[illegible]

SUPRANATIONAL

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

UNITED KINGDOM

[illegible]

UNITED STATES AMERICA

[illegible]

Mutual Funds

Closing Prices Sept. 14, 1984

NEW YORK (AP)— The following quotations, supplied by the National Association of Securities Dealers, Inc., are the prices at which these securities could have been sold (Net Asset Value) or bought (value plus sales charge) Friday.

[illegible]

American Exchange Options

For the Week Ending Sept. 14, 1984

[illegible]

CONVERTIBLE BONDS

EUROPE

[illegible]

JAPAN

[illegible]

MISCELLANEOUS

[illegible]

UNITED STATES AMERICA

[illegible]

HIGHEST CURRENT YIELDS

On convertibles having a conversion premium of less than 10%.

[illegible]

Explanation of Symbols

[illegible]

Over-the-Counter

			Sales in 100s	High	Low	Last	Net Ch'ge
A							
A M Fd			215	5	4⅞	4⅞	— ⅛
AA Imp			59	3¼	3¼	3¼	
ABS h	.17e	3.0	31	5⅝	5½	5⅝	+ ⅛
AEC s	.16t	1.4	75	12⅛	11¾	11⅝	— ⅜
AFP			293	3⅛	3⅛	3⅛	
AIA un			37	⅜	⅜	⅜	—⅛
AMCbl			178	3½	3⅛	3⅛	— ⅛
AT&E			333	3⅞	2½	2⅝	— 1
ATE			67	4⅝	4½	4½	— ⅛
AVM Co			37	6⅝	6⅝	6⅝	
Abrams	.32b	3.5	66	9¼	9	9¼	+ ¼
AcapRs			72	4½	4½	4½	
Aceto		1	47	20½	19¾	19¾	— ¾
ACMAT			39	9¼	9	9	— ¼
AcmeG	.20	1.7	26	12	12	12	
AcroEn			338	3¾	3¼	3¼	— ½
Acro un			174	4	3¾	3¾	— ¾
Actvsn			3545	1⅝	1⅛	1⅝	+ ½
Actmed			73	20¼	19½	20¼	+ ¾
AdisnW	.70	2.8	27	25⅝	25¼	25¼	— ½
AdvRes			247	5⅝	5⅛	5⅛	— ¼
AdCel			132	4	3½	3⅞	+ ¼
AdvGen			1106	4⅛	2⅝	4½	+ 1⅝
AdvSem			85	24½	23¾	24½	+ ¾
AdvTel			59	4½	4¼	4¼	— ¼
Aequtrn			351	4¼	4	4¼	— ⅛
AerSvc			218	2	1¾	2	+ ¼
AerSys			323	2⅝	2⅝	2⅝	
AffBco	1.00	4.2	44	24½	24	24	
Agnico g	.12e	1.0	515	12⅛	11½	12	+ ½
AlamoS	.60	2.7	116	22	20	22	+ 2
Alanco			812	½	⅜	½	+ ⅛

Consolidated Trading Of NYSE Listing

Week ended Sept. 14

Treasury Bills

Source: Federal Reserve Bank.

Consolidated Trading Of AMEX Listing

Week ended Sept. 14

U.S. Rally In Bonds Stirs Ecstasy

(Continued from Page 17)

dence in the ability of the dollar to maintain or strengthen its value on the foreign exchange market and are taking profits by converting into other currencies. The bulk of this shift, these bankers add, is going into Deutsche marks.

The new calendar of 1.9 billion DM of new issues this month is double the pace of last month, but the response to the first three issues has Frankfurt bankers convinced that this will be easily absorbed. Canadian dollar bonds continue to appeal to investors looking both for a currency gain if the U.S. dollar weakens and a higher rate of return than offered on U.S. paper.

In addition, funds are also moving into the guilder market. Bankers noted that the domestic guilder issue for the African Development Bank — whose international issues have never been easy to place — was a sellout.

A good test of sentiment about the dollar market may be demonstrated this week when Chevron, the U.S. oil company, is widely expected to offer up to $1 billion in securities.

Meanwhile, the dollar market demonstrates a preference for U.S. corporate names and short maturities.

American Express sold $150 million of four-year paper at par bearing a coupon of 12⅝ percent and finished the week at a discount of 1.12 points.

The three-year notes of Disney and McDonald's turned in the best price performance last week. Disney's $150 million of 12½ percent notes, offered at par, ended the week at 99¼, while McDonald's $75 million of 12¼ percent paper finished at 98.88. The McDonald issue matures in 1996, but trades as three-year paper as every three years investors can request to be repaid or the company can set a new coupon.

Coca-Cola sold $100 million of seven-year paper at a discount of 99¾ bearing a coupon of 11¾ percent — the lowest of all of last week's issues — and finished the week at 98¼.

Ford Motor's $100 million of seven-year, 12⅞ percent notes were priced at 99⅜ and ended the week at 98¼, while Merrill Lynch's $100 million of five-year notes, priced at par bearing a coupon of 12¾ percent, ended the week at 97.88.

Only two non-U.S. borrowers competed for funds. Eurofima, which finances the purchases of rolling stock for Europe's railroads, sold $75 million of five-year paper at par bearing a coupon of 12½ percent and finished the week at 98.

Manitoba raised $100 million through the sale of 10-year, 12½ percent bonds priced at 99½ to yield 12.59 percent. These bonds ended the week quoted at 97¾.

The Canadian province had a much better reception in the DM market, where it sold 200 million marks of 10-year, 7⅝ percent bonds. The issue was priced at 99½ to yield 7.7 percent and ended the week at par.

The European Investment Bank offered 300 million DM of 10-year bonds bearing a coupon of 7⅞ percent. These were priced at 99½ for a yield of 7.95 percent. The Austrian Kontrollbank made a 100-million DM private placement of five-year notes priced at par bearing a coupon of 7⅝ percent.

This week will see private placements from Megal (75 million DM) and the World Bank (200 million DM) and public issues from Ireland (150 million DM). Canadian Development Export Corp. (100 million DM) and Rabobank of the Netherlands (200 million DM).

Kredietbux Indices — Sept. 14

(Base 100 May 1, 1977)

Index	Sept. 14
Industrials, US $ L.T.	98.284
Int'l Institutions US $ L.T.	91.107
US $ medium term	100.268
Canadian $ medium term	100.623
ECU medium term	101.617
UC 9	89.786
DM	98.581
Guilders	101.491
FF short term	119.922
F Lux	99.486
Int'l Inst. F Lux medium term	103.37
F Lux medium term	101.376
Int'l Inst. Yen long term	101.559
ECU short term	99.987
ECU long term	100.117

New Eurobond Issues

Issuer	Amount (millions)	Mat.	Coup. %	Price	Yield at offer	Price end week	Terms
FLOATING RATE NOTES							
Frab-Bank Int'l	$ 40	1994	¼	100	—	—	Over mean of bid and offered rates for 6-month Eurodollars. Minimum coupon 6%. Redeemable in 1991 at par, and callable at par on any interest payment date after 1987. Commissions 1.4%.
Mortgage Bank of Denmark	£75	1999	⅛	100	—	99.35	Over 3-month Libor. Minimum coupon 5%. Callable at par in 1989, and redeemable in 1996. Commissions 0.495%.
FIXED-COUPON							
American Express Credit	$150	1988	12⅝	100	12⅝	98.88	Noncallable.
Coca Cola	$100	1991	11¾	99¾	11.80	98.25	First callable at 101½ in 1988.
Eurofima	$75	1989	12½	100	12½	98	Noncallable.
Ford Motor Credit	$100	1991	12⅞	99⅜	12.96	98.25	First callable at 101 in 1989.
Manitoba	$100	1994	12½	99½	12.59	97.75	Noncallable.
McDonald's	$75	1996	12¼	100	12¼	98.88	Callable and redeemable in 1987, 1990 and 1993, when new terms will be set.
Merrill Lynch	$100	1989	12¾	100	12¾	97.88	First callable at 100½ in 1987.
Walt Disney Productions	$150	1987	12½	100	12½	99.25	Noncallable.
EIB	DM 300	1994	7⅞	99½	7.95	99.50	First callable at 101½ in 1991.
Manitoba	DM 200	1994	7⅝	99½	7.70	100	Noncallable.
Oesterreichische Kontrollbank	DM 100	1989	7⅝	100	7⅝	99.75	Noncallable private placement.
South African Post Office	ECU 40	1999	11⅝	open	—	—	Callable and redeemable in 1987, 1990, 1993 and 1996, when new terms will be set. Price to be set Sept. 18.
Chrysler Credit Canada	C$ 50	1991	14	100	14	98.25	Callable at par in 1989.
Toronto	C$ 50	1994	13	100	13	98.75	Noncallable.
Vienna	C$ 81.6	1994	13¼	100	13¼	98⅜	Noncallable.
IADB	Y 15,000	1994	open	open	—	—	Coupon indicated at 7½%. Callable at 101 in 1989. Terms to be set Sept. 19.
EQUITY-LINKED							
Wacoal	$ 50	1999	4	100	4	98.25	Semiannually. First callable at 104 in 1987. Convertible into company's shares at 801 yen per share, a 3.89% premium. Exchange rate set at 245.95 yen per dollar.

New Zealand Reveals Borrowing Plan

By Carl Gewirtz

International Herald Tribune

PARIS — New Zealand last week revealed its long-awaited plans to refinance $1.5 billion of outstanding syndicated bank loans. As expected, the operation is a now popular hybrid transaction, giving the borrower the choice of issuing securities or seeking a bank loan.

The sale of securities would result in the lowest cost of funds while the bank loan, which is in effect a line of last resort, would be more expensive.

The securities would be issued only in U.S. dollars for periods up to 12 months. Banks participating in the tender panel organized for this purpose will be asked to bid for the notes and will be free to use any reference rate they choose as the basis for the interest rate.

The aim here is to encourage banks to not use the London interbank offered rate, the standard base rate of syndicated credits, but the less expensive U.S. Treasury bill rate or the domestic rate on certificates of deposit. The managers note, for example, that New Zealand could pay a margin of 80 basis points over the T-bill rate and still wind up with a cost of funds of at least a quarter percentage point below Libor.

If the panel does not bid or if New Zealand does not like the terms, a second line of recourse would be to ask the banks providing the back-up loan to propose terms for a loan in any currency using any reference rate they choose. This option assumes that banks are willing to provide short-term credits to a sovereign borrower at a cost below Libor rather than put its excess cash in the interbank market at the bid rate.

If all else fails (which is unlikely since the borrower, despite its current economic difficulties, remains a sought-after credit), New Zealand can draw on a seven-year credit at pre-determined margins. A readiness to provide this loan is the only firm commitment that banks participating in the transaction undertake. The terms on this portion of the deal, therefore, represent the maximum cost New Zealand will pay.

This consists of an annual facility fee of 10 basis points whether or not the loan is drawn. However, the borrower at any time (for a minimum period of three months) can declare its intention to not use more than $750 million directly or

SYNDICATED LOANS

as a backstop for short-term advances and in that case, the facility fee drops to five basis points.

To draw on the bank loan, New Zealand will pay a base interest rate of 15 basis points over Libor. To this must be added utilization fees of 15 basis points if more than one-third of the loan is drawn and 25 basis points if the drawing exceeds two-thirds of the total. There is no utilization fee on drawings below one-third of the face amount. Assuming the facility fee remains a constant 10 basis points, New Zealand would pay 25 basis points over Libor to draw up to one-third of the loan; 40 basis points for up to two-thirds, and 50 basis points for more than that.

In addition, banks will earn a management fee of ¼ percent.

Citibank is organizing the operation with Bank of Tokyo named as Far East co-ordinator and Lloyds Bank named as European and Mideast co-ordinator.

Italian borrowers, meanwhile, are taking advantage of the decline in lending margins (the result of increased bank competition for a narrowing universe of top quality borrowers) to renegotiate terms on outstanding loans.

ENEL, the state electricity utility, has done several of these but its latest has run into considerable resistance. This is a $600-million loan which is being restructured as an eight-year operation with interest set at ⅜-point over Libor.

The rub is that managers Deutsche Bank and Banca Commerciale Italiana are offering a renegotiating fee of ⅛ percent — half of that paid previously on a $500-million renegotiation led by Bankers Trust and setting off a tumult among bankers who allege that Deutsche and BCI must be pocketing another ⅛ percent for themselves.

Executives at both banks deny this, saying the higher fee on the previous eight-year deal was part of the compensation to lenders for setting interest at no margin over the prime rate for the final four years.

Late last week, Deutsche Bank announced that it had acceptances for the new terms from more than 50 percent of the syndicate and that any amount unspoken for would be repaid by ENEL. This does not necessarily mean that the size of the new loan would be for less money as members of the syndicate may decide to increase their own portion to pick up the slack.

In the Britoil renegotiation announced a week earlier, for example, only two-thirds of the original members of the syndicate agreed to the new terms on the $400-million being sought. But the shortfall, said a loan officer at Citibank which is organizing the transaction, has been picked up by new banks invited into the deal.

Meanwhile, the Soviet Union, in an apparent signal of its intent to diversify its borrowings away from the dollar market, is raising a five-year loan of 75 million European Currency Units. The favorable response from lenders means that the amount could be increased if the Russians decide they want more. Interest is set at ½-point over the interbank rate and a commitment fee of ½ percent is offered.

Both the Russians and the Hungarians are said to be eyeing the yen market for syndicated loans. Bankers say that Czechoslovakia would like to tap the dollar market but is unwilling to pay the 1 percent over Libor (including fees) that potential lenders are seeking for a five-year loan.

Hungary has just completed the sale of $85 million worth of the three-year notes which may be extended to four years. The amount was increased from the $35 million initially targeted. The cost of funds amounts to about 1 point over Libor (comprised of the margin; an issuance fee of 15 basis points for three-month notes or 30 basis points for six-month notes, and a facility fee of 40 basis points).

Yugoslavia is preparing to raise some $40 million through a loan co-financed with the World Bank as soon as its talks to arrange a multiyear rescheduling are completed. Those talks are due to open in New York next week.

Dollar's Continuing Rise Prompts New Theories

(Continued from Page 17)

they still seem to be in the minority — contend that the American economy is regaining the economic leadership role it held for the two decades after World War II, when the dollar was the hot currency.

"No one should be amazed that it now takes three Deutsche marks to buy one dollar," said a New York banker who asked not to be quoted by name. "I remember back in the '60s, when it took four marks to buy a dollar."

Although the United States economy has become a powerhouse once again, it does not command the overwhelming dominance that it enjoyed in the years immediately after World War II. Thus, it is argued, the dollar does not belong at four marks, but neither does it belong at two.

David C. Redding, vice president and economist at Bankers Trust Co., said, "Most people can't believe that the dollar is fundamentally strong, because they can't remember before 1965."

Investors around the world have come to believe, according to a growing number of economists, that the United States offers incomparable economic growth and incomparable stability. Foreign investment in the United States surged to $158.3 billion in the first half of this year, from $33.9 billion for all of 1983.

Among the factors cited by economists is the low rate of inflation. Over the last 12 months, the producer price index, a key indicator of inflation, has climbed only slightly more than 2 percent, compared with 12.8 percent in 1979.

"The performance of the U.S. economy has been so good compared with others, it is perceived as offering the best opportunity for 'real' investment," said Robert T. Parry, executive vice president and chief economist of Security Pacific National Bank.

"In a lot of countries people are saying, 'If I'm going to invest, I'll invest in the United States.'"

Money is flowing into the United States not because of high interest rates and tight monetary policies, but because of the rising levels of corporate profitability, he said at a seminar sponsored by the Conference Board, a research group made up of business leaders.

In his view, the recent bruising recession in the United States forged a highly efficient economy. Europe, by contrast, has been slow to adjust to changing technology and competitive conditions.

This new perception of the longevity of the dollar's strength has also led to some rethinking about the factors that directly affect exchange rates.

For example, traditionally it had been believed that trade deficits should put severe downward pressure on an exchange rate.

But now even the markets have been paying relatively little attention to the deficits. Most economists have attributed that disregard to the high level of U.S. interest rates: They say that investors are more eager to gain short-term yields from high interest rates than to worry about the future effects of today's trade gap.

"Foreign investors don't look at the trade deficit. They ask, 'What are my investment alternatives?'" Mr. Redding said.

Mr. Redding said that some economists are going a step further in downplaying the importance of trade deficits. "They are not saying the trade deficit is to be dismissed, but that it should be seen in a broader context," he said. "To them, it makes more sense to lend a lot of money to a well-managed country than a little to a poorly managed one."

The growing optimism about the longer-term outlook for the dollar also fits well with the free-market philosophy that has become increasingly popular among liberal as well as conservative economists.

That view holds that the world economy is too complex to be fully understood by anyone. Only the market system is capable of sifting the seemingly infinite bits of information and making sense out of them. And the answer comes out in the form of price — in the foreign exchange markets, the relative value of currencies.

No ideas, it seems, are exempt from the general reassessment now under way. There is even rethinking about whether a decline in interest rates would hurt the dollar.

S. Waite Rawls, managing director of Chemical Bank, said that if the dollar's basic strength does stem from a robust economy, then over the long run lower interest rates should strengthen the dollar, because they would strengthen the economy.

In addition, some economists argue that there are built-in safeguards against a vast outflow of money from the United States if interest rates were to decline. The United States has become so dependent on foreign funds that a huge outflow, they say, would drive rates up again and cause money to flow back into the country.

There are those who still vehemently disagree that the dollar can remain for long at its current heights. C. Fred Bergsten, for example, who was undersecretary of the Treasury in the Carter administration, said recently that the current value of the dollar "is unsustainable, and at some point it will come down sharply." Walter F. Mondale, the Democratic presidential candidate, says the same thing.

Now, many bankers, including some who agree with Mr. Bergsten, predict that the dollar will plummet if the polls begin to indicate a Mondale victory in November.

"The strong performance of Reagan in the polls indicates that America's basic programs will continue as they are, and that, maybe above all, makes for a strong dollar," Mr. Heller said.

Japan's Expo '85: A Leap Into Future

(Continued from Page 17)

everything from three-dimensional integrated circuits to huge superconducting magnets for energy generation by nuclear fusion.

Education and instruction at Tsukuba depart from the traditional ways that are blamed for stifling innovation. The University of Tsukuba, which was the Tokyo University of Education before moving, represents an effort to encourage more independent thought and research in higher education.

It admits many students on the basis of high school achievement, rather than on the standardized entrance exams that do not weigh creativity.

All research here takes place in an informal campus-like atmosphere. In the summer, researchers come to work in jogging shorts and sneakers and carrying tennis racquets.

"I like the country feeling," said Susumu Takada, 40, a Tsukuba resident, who spends his days in the Electrotechnical Laboratory trying to create superfast electronic circuits that must be frozen with liquid helium.

But while the government provided the laboratories, it failed to provide the shops, restaurants and cultural facilities needed to make a well-rounded city. "There's only one type of people here," said Yasuhiko Komatsu, who works at the Fermentation Research Institute.

Those accustomed to Tokyo's excellent rail system are annoyed by the lack of public transportation here. Tsukuba is so spread out that cars are needed even to get between buildings that are part of the same laboratory.

As a result, the town has not grown as fast as the government hoped. The population of the science community is now about 34,000, with another 109,000, mainly natives of the area, living in the surrounding region. The plan is for 220,000 by 1990.

The government, for its part, is not discouraged by the progress of Tsukuba. It is planning at least 14 "technopolises," high-technology industrial areas scattered throughout the countryside.

The government hopes that roads, restaurants, hotels and other facilities being built for the fair will spur Tsukuba's development. It also hopes that industry will be attracted to the city, so that the fairgrounds can become an industrial park after the six-month Expo is over.

Officials expect 20 million people to visit the Expo, enough for the fair to break even. (Some 5 to 8 percent are expected to be foreigners.)

S&L Exempted From Ban

Reuters

WASHINGTON — The U.S. Treasury said Friday it was granting a limited exception to the ban it announced a week ago on the issuance of government-backed securities in bearer form. The exception will enable Miami-based Dade Savings & Loan Association to complete the sale of a $250-million Eurobond issue collateralized by U.S. government securities.

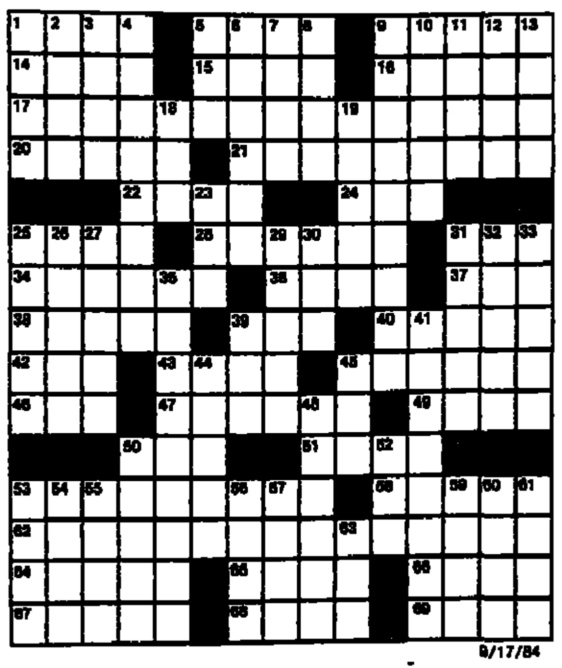
Chicago Exchange Options

For the Week Ending Sept. 14, 1984

Option & price	Calls		Puts	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Total Volume: 223,194

Open interest 2,813,297



9/17/84

ACROSS

1 Be economical
5 Copperfield's first wife
9 Resolve grammatically
14 Holly
15 Elliptical
16 Heighten spirits
17 Cabinet officer
20 British sculptor
21 State of preparation
22 Attired
24 Southwestern Indian
25 Suva is its capital
28 Arresting group
31 Presidential sobriquet
34 Rumanian composer-conductor
36 —— corner
37 Blend
38 Swedish port
39 Snake on the Nile
40 Ground for action
42 Wire measure
43 Baseball stats
45 Photoelectric eye
46 Suffix with cook or rook
47 Secure anew
49 Item in Junior's bank
50 Excavate
51 It leads ships past Leeds
53 Timetables
58 "My body —— of bones ...": Donne
62 What 17 Across must uphold
64 Cabinet position
65 Ethiopian lake
66 Not fooled by
67 Argot for aces
68 Boor of a sort
69 Corrode, as iron

DOWN

1 "The King and I" locale
2 Kind of saxophone
3 Presidential prerogative
4 Demon-chasing ritual
5 Oxford tutor
6 Exceed
7 Comedienne from Montana
8 Stonewort, e.g.
9 Sorrow for one's sins
10 Coeur d'——, Idaho
11 Hard to find
12 RR depots
13 Slithery creatures
18 Electrical unit
19 Draw out
23 G.I. address
25 Lady of Lyon
26 Suspended
27 Type of bean or roll
29 Dogie catcher
30 Brat's cousin
31 Divert
32 Beast on an old nickel
33 Put forth effort
35 Halls
39 Be indisposed
41 Forebear
44 Started
45 Enjoy Snow Basin
48 Card game
50 Ornamentation
52 Former L.A. pitcher
53 City on the Vire
54 Fictional sleuth
55 Goddess of youth
56 Landing craft
57 And others: Latin abbr.
59 Japanese aborigine
60 Barracks beds
61 Diamond hitch, e.g.
63 Hunter from N.Y.C.

DENNIS THE MENACE

"HOW MANY MORE DAYS TILL SUMMER VACATION, MIZ MALONE?"

JUMBLE

THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

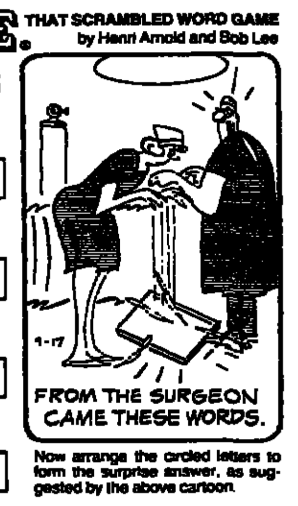
Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

MARAD

FOBEG

DIASUN

GUMMAN



Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Print answer here: " , !"

(Answers tomorrow)

Friday's | Jumbles RAVEN NEWLY HECKLE MARMOT
Answer What four-letter word do some people find most objectionable?—"WORK"

WEATHER

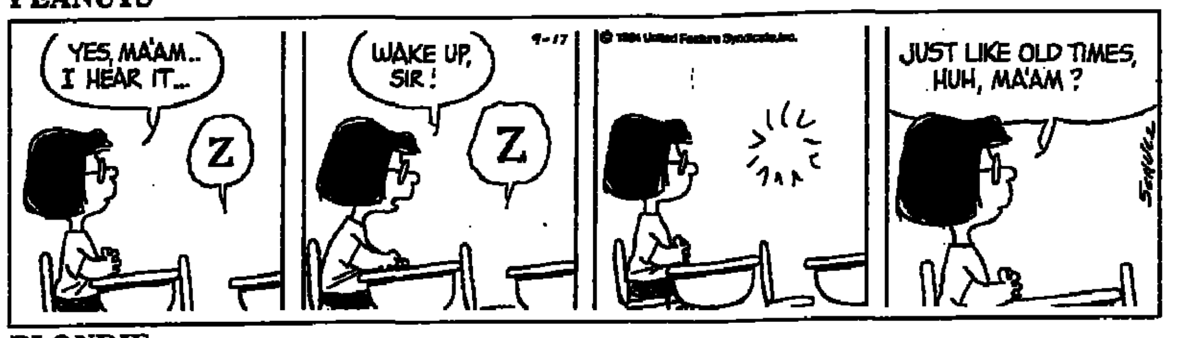
EUROPE	HIGH C	HIGH F	LOW C	LOW F	
Algarve	29	84	18	64	fr
Amsterdam	18	64	14	57	o
Athens	30	86	18	64	fr
Barcelona	26	79	16	61	fr
Belgrade	22	72	16	61	r
Berlin	20	68	10	50	fr
Brussels	16	61	14	57	o
Bucharest	27	81	15	59	cl
Budapest	21	70	15	59	o
Copenhagen	17	63	10	50	cl
Costa Del Sol	25	77	17	63	fr
Dublin	17	63	12	54	o
Edinburgh	15	59	11	52	r
Florence	21	70	14	57	cl
Frankfurt	17	63	14	57	o
Geneva	14	57	11	52	sh
Helsinki	16	61	7	45	cl
Istanbul	26	79	17	63	fr
Las Palmas	27	81	21	70	fr
Lisbon	31	88	16	61	fr
London	18	64	13	55	o
Madrid	27	81	11	52	fr
Milan	20	68	11	52	o
Moscow	13	55	8	46	cl
Munich	12	54	9	48	r
Nice	23	73	15	59	cl
Oslo	14	57	10	50	o
Paris	18	64	14	57	o
Prague	18	64	12	54	o
Reykjavik	11	52	6	43	fr
Rome	23	73	18	64	cl
Stockholm	16	61	9	48	cl
Strasbourg	16	61	12	54	r
Venice	22	72	16	61	o
Vienna	18	64	14	57	r
Warsaw	13	55	10	50	o
Zurich	14	57	10	50	r
MIDDLE EAST					
Ankara	27	81	7	45	fr
Beirut	27	81	22	72	o
Damascus	32	90	12	54	fr
Jerusalem	24	75	16	61	fr
Tel Aviv	28	82	19	66	cl
OCEANIA					
Auckland	14	57	6	43	fr
Sydney	18	64	10	50	r

ASIA	HIGH C	HIGH F	LOW C	LOW F	
Bangkok	32	90	24	75	st
Beijing	26	79	17	63	o
Hong Kong	28	82	24	75	o
Manila	33	91	24	75	st
New Delhi	33	91	23	73	fr
Seoul	27	81	17	63	fr
Shanghai	26	79	20	68	o
Singapore	31	88	24	75	o
Taipei	27	81	22	72	st
Tokyo	22	72	18	64	r
AFRICA					
Algiers	30	86	16	61	fr
Cairo	32	90	20	68	fr
Cape Town	16	61	10	50	o
Casablanca	27	81	21	70	fr
Harare	25	77	12	54	fr
Lagos	28	82	18	64	fr
Nairobi	25	77	13	55	o
Tunis	29	84	19	66	o
LATIN AMERICA					
Buenos Aires	17	63	9	48	cl
Lima	20	68	15	59	o
Mexico City	18	64	11	52	pc
Rio de Janeiro	30	86	20	68	fr
Sao Paulo	—	—	—	—	na
NORTH AMERICA					
Anchorage	13	55	6	43	pc
Atlanta	23	73	15	59	fr
Boston	15	59	9	48	pc
Chicago	18	64	3	38	fr
Denver	24	75	9	48	fr
Detroit	16	61	4	39	fr
Honolulu	31	88	21	70	pc
Houston	28	82	18	64	cl
Los Angeles	35	95	24	75	pc
Miami	31	88	25	77	st
Minneapolis	20	68	4	39	pc
Montreal	18	64	8	46	r
Nassau	32	90	24	75	fr
New York	18	64	10	50	fr
San Francisco	24	75	14	57	fr
Seattle	25	77	13	55	pc
Toronto	18	64	9	48	r
Washington	19	66	10	50	fr

cl-cloudy; fo-foggy; fr-fair; h-hail; o-overcast; pc-partly cloudy r-rain; sh-showers; sn-snow; st-stormy.

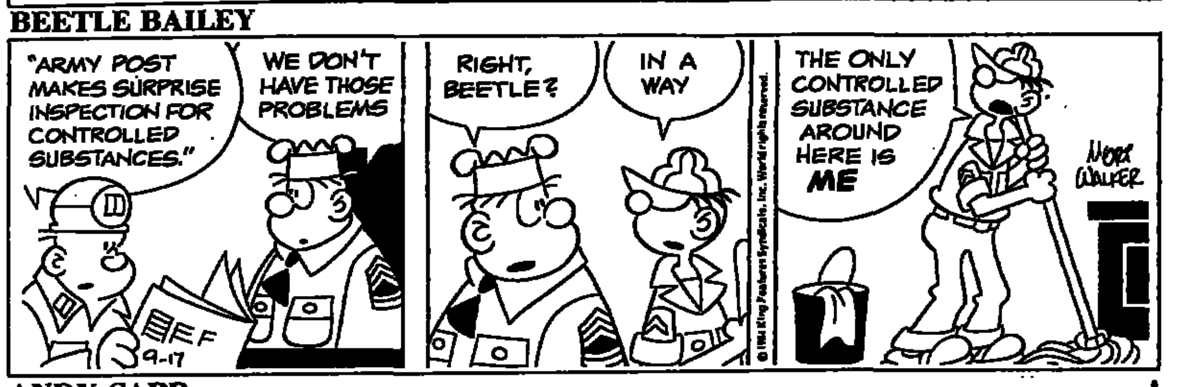
MONDAY's FORECAST — CHANNEL: Moderate. FRANKFURT: Overcast. Temp. 17—13 (63—55). LONDON: Rain. Temp. 17—12 (63—54). MADRID: Fair. Temp. 28—12 (82—54). NEW YORK: Fair. Temp. 21—11 (70—52). PARIS: Cloudy. Temp. 18—14 (64—57). ROME: Cloudy. Temp. 24—17 (75—63). TEL AVIV: Fair. Temp. 28—19 (82—66). ZURICH: Rain. Temp. 15—10 (59—50). BANGKOK: Stormy. Temp. 33—25 (91—77). HONG KONG: Cloudy. Temp. 29—25 (84—77). MANILA: Showers. Temp. 32—24 (90—75). SEOUL: Foggy. Temp. 27—15 (81—59). SINGAPORE: Stormy. Temp. 30—24 (86—75). TOKYO: Rain. Temp. 22—20 (72—68).

PEANUTS



BLONDIE

BEETLE BAILEY



ANDY CAPP

WIZARD of ID

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GARFIELD

BOOKS

THOMAS JEFFERSON: Writings

Edited by Merrill D. Peterson.
1,600 pp. $30.
Library of America, 14 East 60th Street, New York, N.Y. 10022.

Reviewed by Herbert Mitgang

DURING the American presidential election season in 1984, it's useful to read a few lines from Thomas Jefferson's First Inaugural Address in 1801. He called for "a wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned," and he said the United States was "a chosen country."

If these words sound like hyperbole, that is what qualifies them — as literary, not presidential, language — to be included among such authors as Hawthorne, Melville, Whitman, Twain and James. Jefferson has the honor of being the first president to be chosen for his writings in the growing Library of America series, which includes the collected works of the country's foremost authors. Only a handful of presidents can qualify as writers.

"Jefferson: Writings" isn't a political biography. (It contains "Autobiography," "A Summary View of the Rights of British America," "Notes on the State of Virginia," "Public Papers," "Addresses, Messages, and Replies," "Miscellany" and "Letters.") What makes it different is that it gives the reader a chance to assess the power of the man's pen and, by this standard, his character and mind. He stands up well as a writer. After all, he did have practice writing — and being edited — a quarter of a century before becoming president.

In his brief autobiography, included here, Jefferson discusses writing (and revising) the Declaration of Independence. "I prepared a draught of the Declaration," he notes, "but it was too strong for Mr. Dickinson." John Dickinson, of Delaware and Pennsylvania, was a member of the Continental Congress. The copy of the Declaration in "Writings" shows both inserts and excisions. Although Jefferson was not a great literary phrasemaker, it is hard to imagine a better phrase than "the pursuit of happiness." Not happiness alone — impossible to achieve — but its pursuit — a possible dream. That phrase stayed in his "draught."

Thomas Jefferson.

Letters are a major part of "Jefferson: Writings," well-chosen by Merrill D. Peterson, one of his biographers. One letter shows Jefferson's literary side. Writing from Monticello in 1771 to a friend, he provided a list of books that should be in "a gentleman's library." He included more than a hundred books on law, politics, ancient and modern history and religion. The largest number are on what he labeled the "fine arts" — Pope, Dryden, Shakespeare, Congreve, Voltaire, Rousseau, Molière.

Jefferson suggested that a well-read person should go beyond the Greeks and Romans and learn to appreciate "the entertainments of fiction." He said, "We are wisely framed to be as warmly interested for a fictitious as for a real personage," explaining that "a lively and lasting sense of filial duty is more effectually impressed on the mind of a son or daughter by reading King Lear than by all the dry volumes of ethics and divinity ever written."

It's hard to imagine a modern politician advising the electorate to turn to Shakespeare for ethical guidance.

Herbert Mitgang is on the staff of The New York Times.

Solution to Friday's Puzzle

B	E	A	S	T	S		S	R	O	S		W	P	A
I	N	D	I	R	A		A	E	R	O		A	R	P
O	D	D	L	O	T		M	A	I	N		Y	O	O
			E	T	Y	M	O	L	O	G	I	S	T	S
S	P	I	N		R	A	V	E	N		V	I	E	T
P	I	N	T		I	R	A	S		M	O	D	A	L
Y	E	N		S	C	A	R		S	E	R	E	N	E
			C	O	A	T		G	A	R	Y			
B	E	F	A	L	L		M	U	T	E		V	A	T
E	R	A	S	E		B	A	L	I		D	O	P	E
D	I	S	C		R	A	D	A	R		A	X	E	D
E	N	T	O	M	O	L	O	G	I	S	T			
V	I	E		A	M	E	N		C	O	U	P	E	S
I	T	S		C	A	E	N		A	R	R	I	V	E
L	E	T		E	N	N	A		L	E	A	N	E	R

9/15/84

BRIDGE

By Alan Truscott

A player who lurks in the bushes ready to spring like a panther can often make a killing. But he will need a partner who will know why he was lurking. North-South got themselves into trouble on the diagramed deal, and their opponents understood the theory of lurking and springing.

West opened one diamond, which might have been a short suit in the partnership style. North overcalled one heart, and East lurked. South's choice would seem to be between passing and bidding two clubs. His bid of one no-trump was forcing, an unusual and dubious idea. North bid two diamonds, hoping that West's suit was nonexistent and that a fit could be found. East sprang from the bushes with a double.

West immediately alerted, and explained on request that East held a good hand with length and strength in hearts. North-South were now on the run. South retreated to three clubs.

A heart was led to the king and ace. East shifted to his singleton diamond, and the ten was covered with the jack and the ace. South threw a spade on the heart queen and led a spade to the king. West cashed the diamond king, and East threw the spade jack, suggesting that he owned the ten.

West led a low spade to the ten, and East led the heart jack. South ruffed with the club eight, trying to avert a cheap overruff. West produced the club ten and played the spade queen. This was ruffed with the nine in dummy and overruffed with the jack. Another heart lead was ruffed with the seven of trumps and overruffed with the queen.

Another spade was led, and South was allowed to ruff with the deuce. He now regretted his extravagance with his trump spots, for when he led the trump six, he was allowed to win. He then had to lead from the K-4 into East's A-5, and the penalty was 900.

This cost 9 international match points, for in the replay North played in two hearts doubled, losing 500. South would probably have gained on the deal if he had just passed one heart, lurk or no lurk.

NORTH
♠ 7 4
♡ K Q 9 8 3
◇ A 9 7 4 2
♣ 9

WEST (D)
♠ A Q 8 3
♡ 6 5
◇ K J 8 6 3
♣ Q 10

EAST
♠ J 10 2
♡ A J 10 7 4
◇ 5
♣ A J 5 3

SOUTH
♠ K 9 6 5
♡ 2
◇ Q 10
♣ K 8 7 6 4 2

Neither side was vulnerable. The bidding:

West	North	East	South
1 ◇	1 ♡	Pass	1 N.T.
Pass	2 ◇	Dbl.	3 ♣
Pass	Pass	Pass	

West led the heart six.

SPORTS BRIEFS

Five World Weightlifting Marks Reported

VIENNA (UPI) — Five world records fell this weekend at an international weightlifting tournament in Varna, Bulgaria, all to Soviet lifters, according to the BTA news agency.

In the 90-kilogram (198.5-pound) class, Victor Solodov clean-and-jerked 233 kilos, bettering his own mark of 232.5. His combined snatch and jerk of 422.5 was also a record. Pavel Kuznetsov clean-and-jerked 241.5 in the 100-kilo class to better his own world-record 241, BTA said.

On Sunday, super-heavyweights Yuri Zaharievich and Leonid Taranenko bettered each other's snatch records successively within minutes, with Zaharievich finally snatching a record 200.5 kilos. Taranenko set a record for combined snatch and jerk at 442.5 kilos.

Piggott Sets Record for Victories in Classics

DONCASTER, England (UPI) — Lester Piggott rode into history here Saturday by piloting favored Commanche Run to victory in the St. Leger Stakes, the final classic of the British horseracing season.

Piggott won his 28th classic — surpassing the 27 victories amassed by Frabk Buckle set nearly 200 years ago — by outlasting the final-straight sprints of Baynoun (Steve Cauthen up) and Alphabatim (ridden by Greville Starkey). Commanche Run beat Baynoun by a neck; Alphabatim was a length and a half back at the finish of the 1.75-mile (2.81-kilometer) race.

Young, Muncie Fail Dolphin Physical Tests

MIAMI (AP) — Free agent Rickey Young failed the urinalysis part of a physical examination here Saturday — the second prospective Miami Dolphin runing back to do so in as many days.

Late Friday, former all-pro back Chuck Muncie's test disclosed traces of THC, the active ingredient in marijuana. National Fottball League Commissioner Pete Rozelle ordered Muncie, obtained last week from San Diego, to undergo a complete drug evaluation and has barred him from playing "until successful completion of any prescribed treatment."

Slew O' Gold Is Victor in Woodward Stakes

ELMONT, New York (UPI) — Slew O' Gold overcame a sloppy track and stubborn opposition to win Saturday's $292,000 Woodward Stakes at Belmont Park.

Carrying co-high weight of 126 pounds, Slew O' Gold clocked 1:47-4/5 for the 1⅛ miles to win by half a length over former claimer Shifty Sheik and give Angel Cordero Jr. his fourth consecutive winning ride in the Woodward.

Slew O' Gold, who has won all three of his 1984 starts, will shoot for the second leg of fall championship series in the Marlboro Cup on Sept. 29.

O'Meara 2-Shot Leader in Milwaukee Open

FRANKLIN, Wisconsin (UPI) — Mark O'Meara shot a 3-under-par 69 Saturday to increase his lead to three strokes over Tom Watson and Dan Pohl after three rounds of the Greater Milwaukee Open. O'Meara, who led Pohl by one stroke after Friday's second round, was at 12-under 204 after 54 holes. On Saturday, Pohl and Watson shot 71 and 70, respectively, for their 207 totals.

Redskins on Wrong Side in Numbers Game

By Gary Pomerantz
Washington Post Service

WASHINGTON — Perspective has boomeranged on the Washington Redskins. Two weeks ago they began the season in chase of a potential third straight appearance in the Super Bowl.

On Sunday, the Redskins were scheduled to play host to the New York Giants haunted by the possibility of losing their third straight game.

In trying to right themselves against a 2-0 team that has vaporized the pass defenses of Philadelphia and Dallas, the Redskins were going into the contest without two of their injured all-pros: free safety Mark Murphy (strained right knee) and wide receiver Charlie Brown (hamstring pull).

While Coach Joe Gibbs said that Curtis Jordan would replace Murphy and that Virgil Seay would replace Brown (who would suit up, but who said that he doubted if he could play), veteran defensive tackle Dave Butz was expected to start. Butz had a sprained foot and said Saturday:

"I'd be lying if I said it didn't hurt. "But if there's any way for me to be there, I'll be there."

"Big," Gibbs said of this game. "Real big. There's no kidding ourselves about it. We have got to show that we can play good football this year. We can't start 0-3 when a team in our division starts 3-0."

For the Giants, 22 years of a mostly timid tradition was reversed last week at Giants Stadium.

Fans left late in the third quarter of the Giants' 28-7 victory over Dallas certain that the Giants had won. They used to leave early from Giants Stadium for other reasons.

Quarterback Phil Simms, who has thrown for 594 yards in two games behind an offensive line that has allowed him rare time and comfort, said this week of his team's Apollo liftoff, "I know that other people still don't put us in the top class of teams. Maybe we're not, I don't know. To me, we still have to answer a lot of questions around here. I think we'll answer a lot this week."

Hardly has the world lost faith in the Redskins. Oddsmakers haven't. They favored the Redskins by 6½ points. "That's a joke," Gibbs said, nearly angry at being the favorite.

In losing to Miami (35-17) and San Francisco (37-31), the Redskins have been beaten by two of the league's finest teams. While some observers have read these losses as cracks in the Redskins' castle walls, perhaps they might consider how the castle was built in the first place.

Consider the Redskins' 36-7 streak over the last two years (and not including their 0-2 start of this year).

They were 18-0 versus teams with a losing record, 1-1 versus teams that finished .500; 11-0 versus teams that finished one or two games over .500, and 6-6 versus teams that finished three or more games over .500.

Perhaps this is an excuse statistic, coming after losses to two teams likely to finish more than three games over .500 this year. More likely, it might show that scheduling has put the Redskins in a hole as much as any deterioration.

"Statistics are for winners, like feathers in their cap," said the Redskin tight end Rick Walker. "I think if you put a magnifying glass to our losses, you could probably find 10,000 reasons why.

"But how much would people be talking about it if we were 1-1 right now?"

The fact that the Redskins have acquired six new players in the last 26 days has not increased stay-the-course continuity. "A new guy would come on the team last year and before he could blink, we'd be 3-1," Walker said. "This year it's different. Right now, we really need a win."

The Giants' defense was devastating last week against the Cowboys. It forced four turnovers and sacked quarterback Gary Hogeboom five times. Although the Giants were expected to play Sunday without the injured pass-rushing end Casey Merrill, they still have all-pro linebacker Lawrence Taylor.

In two games, Taylor has sacked an opposing quarterback four times and forced two fumbles by Hogeboom.

And he has a team-high 19 tackles, all of which merely solidifies his hold as the league's most dominant defensive player.

"The trouble with Taylor," Gibbs said, "is if he doesn't have somebody blocking him — and it's better not to use a running back because he outweighs them at 240 pounds — then he can make a living dominating games."

The Redskins were hoping to establish the run with John Riggins (held to 12 yards in 10 carries against the 49ers) against a defense that hits with a fury. Furthermore, in Brown's expected absence, the Redskins were expecting wide receiver Art Monk (a conference-leading 13 catches for 254 yards) to be double-covered for much of the game.

And now, more than ever, the Redskins would be looking to their pass defense. Simms had yet to be intercepted.

Jordan was not the only different starter in the secondary on Sunday; Vernon Dean would replace the ineffective Anthony Washington at right cornerback, too, Gibbs said.

The Giants' passing has brought the limelight to wide receivers Bobby Johnson (nine catches for 164 yards) and Byron Williams (seven for 239 and a staggering 34.1 yards-per-catch average).

Each has caught two touchdown passes — and Williams's have measured a burn-'em-deep 65 and 62 yards.

The Redskins, meanwhile, have not developed a pressure-causing pass rush.

They have two sacks in two games, against Miami's quick-throwing Dan Marino and San Francisco's elusive Joe Montana.

Because of injury, the Redskins have been reduced to three defensive ends (starters Charles Mann and Dexter Manley and reserve Tony McGee) and three banged-up defensive tackles (starters Butz and Darryl Grant and reserve Perry Brooks).

Asked what might happen if he did not play Sunday, Butz smiled and said:

"We might change from a 4-3 [alignment] to a 2-5."

Simms seems without a pressure these days. His career has changed course real fast. Over the last four years, the Giants' first-round draft pick of 1979 could not remain healthy. In 1980 and 1981, his shoulder gave way. In 1982, it was his knee. Last year, it was his thumb.

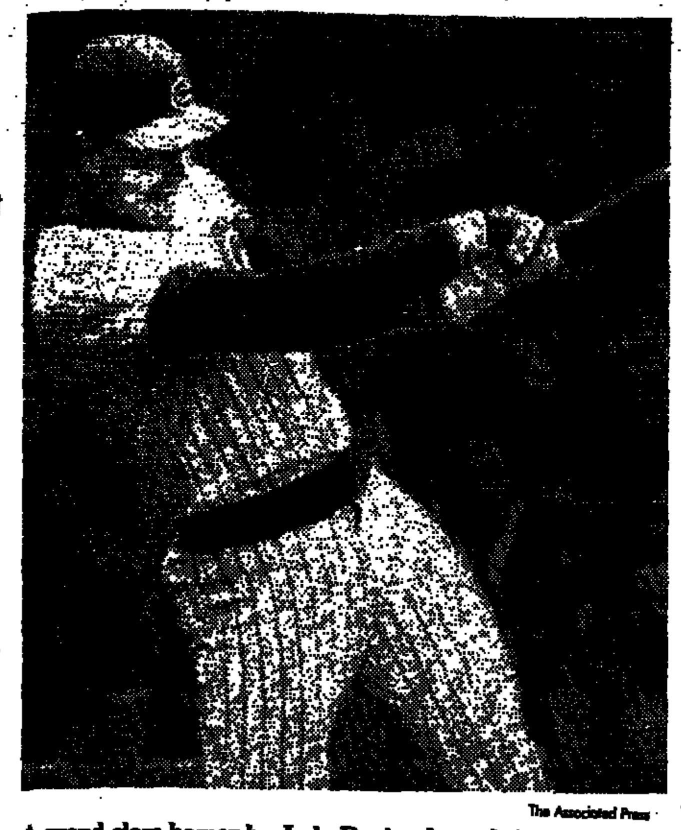
And now, the Giants and Simms have risen together. The Giants have not been 2-0 since 1968. "If people want to put a tag on me, that's fine," Simms said. "But I'm not injury-prone. I'm as tough as any quarterback in this league and I don't doubt that for a second. I've just been unfortunate to get hurt a couple of times, injuries I could not prevent."

And what of the possibilities of a 3-0 start by the Giants?

"It was not a fluke that we beat Dallas. We outplayed them. Just like it won't be a fluke if we beat Washington."

SPORTS

Cubs Edge Mets, Close In on Flag



The Associated Press

A grand-slam homer by Jody Davis, above, helped the Cubs thrash the Mets, 7-1, on Friday; Saturday's hero was Ron Cey, whose two-run first-inning double ignited a 5-4 victory.

United Press International

CHICAGO — Ron Cey's two-run double highlighted a four-run first inning that started Chicago its way to a 5-4 victory over the New York Mets here Saturday, moving the Cubs closer to their first title in 39 years. The decision reduced Chicago's magic number for clinching the National League East title to five.

Winner Scott Sanderson (8-4) went 7⅓ innings, Lee Smith pitching the final 1⅔ innings for his 32d save of the year.

Bob Dernier and Ryne Sandberg started the first with walks off Sid Fernandez (4-6). Gary Matthews singled home Dernier and sent Sandberg to second. With one out, Cey doubled home Sandberg and Matthews to make it 3-0. Cey moved to third on an infield out and scored on a wild pitch.

The Mets cut it to 4-2 in the third. Ray Knight led off with a single and stopped at third on Mike Fitzgerald's double. Knight scored on Fernandez's grounder, and Fitzgerald scored on Wally Backman's groundout.

Dernier's RBI double in the fourth put the Cubs ahead, 5-2.

The Mets knocked out Sanderson in the eighth. Ron Hodges drew a one-out walk, and Backman greeted Smith by doubling Jose Oquendo to third. Mookie Wilson followed with a two-run single.

Astros 3, Padres 2

In Houston, Glenn Davis doubled home Phil Garner in the eighth to lift the Astros over San Diego, 3-2. Tony Gwynn, the National League's leading hitter, had two hits to give him 200 for the year. He is the first player in the history of the San Diego franchise to register 200 hits in one year.

SATURDAY BASEBALL

Cardinals 8, Pirates 3

In St. Louis, Terry Pendleton doubled twice and drove in three runs, and David Green added a two-run single to lead the Cardinals over Pittsburgh, 8-3. Winner Dave LaPoint (11-10) went the distance while loser John Candelaria (12-11) worked four innings, giving up four runs and four hits.

Dodgers 5, Reds 2

In Cincinnati, Orel Hershiser pitched a five-hitter, and Mike Scioscia went 3-for-4 with two RBIs to lead Los Angeles past Cincinnati, 5-2. Hershiser (9-8) went the distance for the sixth time this season. The rookie walked three and struck out five.

Expos 4, Phillies 3

In Philadelphia, Tim Raines hit a three-run home run to give Montreal a 4-3 victory over the Phillies and end Philadelphia's winning streak at five games. Raines's homer, his eighth of the season and first since July 2, enabled Bill Gullickson to pick up his 11th victory against seven defeats. Jerry Koosman (14-13) took the loss. Mike Schmidt hit his 34th home run for Philadelphia.

Braves 4, Giants 1

In Atlanta, Rick Camp pitched a seven-hitter, and Dale Murphy went 4-for-4 and batted in two runs to lead the Braves past San Francisco, 4-1. Camp (7-6) struck out three and walked one in recording his first complete game of the season. The right-hander also picked up his first victory since Aug. 14.

Angels 11, White Sox 2

In the American League, in Anaheim, California, Reggie Jackson's 499th homer helped carry California to an 11-2 rout of Chicago. Jackson also contributed two singles and drove in three runs; his total of 1,509 RBIs ties him with Mickey Mantle for 24th place on the all-time list. The Angels have hit nine home runs in three games, all victories.

Brewers 7, Orioles 0

In Milwaukee, Robin Yount backed Bob Gibson's two-hitter with a grand-slam hoe run and Ed Romero hit his first homer of the season as Milwaukee buried Baltimore, 7-0. Gibson (1-3) who entered the game with a 6.39 earned-run average, gave up only two singles, both to Al Bumbry.

Red Sox 4, Yankees 3

In New York, Dwight Evans delivered a two-run, bases-loaded single in the fifth to make Boston a 4-3 winner over the Yankees. Al Nipper (10-5) posted his fifth straight victory and Bob Stanley picked up his 21st save. Tony Armas hit his 38th home run for the Red Sox.

Tigers 2, Blue Jays 1

In Detroit, Milt Wilcox (17-7) and Willie Hernandez (29th save) combined on a three-hitter, while Ruppert Jones homered and made a game-saving catch as the Tigers edged Toronto, 2-1, and reduced their magic number to four in the Eastern Division. George Bell hit his 24th home run for the Blue Jays.

Indians 6, A's 3

In Oakland, California, Mike Hargrove singled home one run and scored another on Mel Hall's double during a three-run ninth that carried Cleveland to a 6-3 triumph over the A's. Jerry Ujdur (1-0) was the winner. Ernie Camacho pitched the ninth for his 20th save.

Twins 1, Rangers 0

In Arlington, Texas, Mike Smithson shut out his former teammates on six hits as Minnesota beat Texas, 1-0. He walked two and struck out five, working his way out of major jams in both the third and fifth innings. It was his first shutout and 10th complete game of the season. Smithson (15-12) was traded from the Rangers to the Twins in the off-season and now has beaten his former club twice.

Royals 8, Mariners 5

In Seattle, Onix Concepcion went 4-for-5 and Willie Wilson added three hits and two RBIs to pace an 18-hit attack that gave Kansas City an 8-5 victory over Seattle. Concepcion connected for three singles and a run-scoring double, while Wilson doubled in a run in the sixth and added an RBI single in the seventh. Winner Mike Jones went five innings to even his record at 2-2. Dan Quisenberry pitched one-hit relief over the final three innings to record his 41st save.

The Associated Press

Thomas Hearns hovers over Fred Hutchings in the first round.

Hearns Keeps Title

Compiled by Our Staff From Dispatches

SAGINAW, Michigan — Thomas Hearns, demonstrating his solid punching power from the opening bell, knocked down Fred Hutchings twice and stopped him in the third round Saturday to retain the World Boxing Council super-welterweight title.

Hearns, who scored both knockdowns in the first round, had Hutchings in trouble in the second and finished the fight when he had the challenger reeling helplessly from a third-round barrage of head punches.

Hearns's third title defense was stopped with four seconds left in the third round. One of Hutchings's handlers had already climbed into the ring to urge, emploring referee Arthur Mercante to call a halt.

Hearns had knocked out Roberto Duran in the second round in his most recent defense, June 15, and came close to making Saturday's encounter a one-rounder.

The 6-foot-1, 154-pound Hearns (1.85-meters, 69.8-kilograms) hurt the 6-foot-2 Hutchings, who weighed 153¾, with a flurry of punches in the opening minute. Then he knocked out Hutchings's mouthpiece with a crushing right and shortly thereafter knocked him down with a right to the head.

Hutchings struggled to his feet, but was floored by another hard right-left combination. The WBC's No. 3 ranked challenger, a loser only once in 28 previous fights, got up again. He reeled to a corner, where he took a mandatory eight-count.

Hutchings remained on his feet in the second round, but twice was sent reeling across the ring as the champion scored with jabs, hooks and right hands, all of them stiff, authoratative punches.

Hutchings got in a few jabs in the third, but Hearns was in control and began the winning barrage with a hard right followed by a hook.

But there was no doubt Hearns was looking for his 34th knockout from the opening bell as he boosted his record to 40-1 and earned an easy $400,000 (Hutchings made $175,000).

Both fighters are accustomed to fighting shorter men, and before the fight, Hutchings had been asked if Hearns's height would be a problem. "His ability is the problem," said Hutchings. "He can punch." *(AP, UPI)*

■ Laciar Regains Title

Argentine Santos Laciar knocked out Predencio Cardona of Colombia in the 10th round Saturday night to regain his World Boxing Association flyweight title, United Press International reported from Cordoba, Argentina.

Michigan, Iowa Upset; Georgia Tech Stuns Alabama

Compiled by Our Staff From Dispatches

ANN ARBOR, Michigan — Big Ten powers Michigan and Iowa were victims of upsets Saturday, while Georgia Tech handed Alabama its second straight loss, the Crimson Tide's worst start since before the Bear Bryant era.

Rick Fenney scored on a 2-yard run and Hugh Millen threw a 73-yard touchdown to Mark Pattison as the 16th-ranked University of Washington upended Michigan, 20-11. Michigan has been rated second in the country by United Press International and No. 3 by The Associated Press.

COLLEGE FOOTBALL

Millen commanded a ball-control offense in the first half, completing 10 of 12 passes for only 69 yards before halftime. But Pattison, who caught a two-point conversion aerial with 34 seconds left last year to give the Huskies a 25-24 victory over the Wolverines, got behind strong safety Doug Mallory and cornerback Garland Rivers on a 3d-and-7 play from his own 27. Rivers had a clear shot at an interception but missed a deflection try and Pattison glided under the ball and cruised into the end zone for a 17-3 lead with 11:16 left in the third quarter.

Fullback Fenney scored with 1:05 left in the first half to break a 3-3 tie. Jeff Jaeger, who kicked four field goals in Washington's opening-game victory over Northwestern, converted efforts of 25 and 38 yards (the second following a fumbled punt by Michigan).

Doug Harbaugh, who led Michigan to an upset victory over Miami (Fla.) in his first game, was harried by the Huskies and could get the Wolverines no deeper than Washington's 23.

Michigan scored on a school-record 52-yard field goal by Bob Bergeron and a 7-yard touchdown pass from Harbaugh to Vince Bean with two seconds left in the game.

Penn State 20, Iowa 17

In Iowa City, Doug Strang threw for one touchdown and ran for another to lead Penn State to a 20-17 upset over fifth-ranked Iowa. Strang completed 11 of 26 passes for 157 yards, including a 23-yard scoring strike to Herb Bellamy, as the Nittany Lions improved to 2-0.

Iowa was stung by four turnovers and a controversial end-zone interference call that helped set up Strang's 1-yard dive for the game's final TD, early in the fourth quarter.

Nick Gancitano's extra-point gave the Nittany Lions a 20-10 lead, but the Hawkeyes replied with an 80-yard scoring drive, capped by Chuck Long's quarterback sneak, to pull within 20-17.

Iowa took over for the final time on its own 10-yard line with 6:03 left. Long hit four passes to move Iowa to the Penn State 29-yard line with 2:14 remaining, but the right side of the visitors' line stopped tailback Ronnie Harmon on a 4th-and-1 to gain possession of the ball for good.

Georgia Tech 16, Alabama 6

In Atlanta, Robert Lavette ran for 128 yards and a touchdown and David Bell kicked three field goals to enable Georgia Tech to open its season with a stunning 16-6 upset of 20th-ranked Alabama.

Lavette scored the Yellow Jackets' lone TD on a 1-yard sweep around left end early in the second quarter, while Bell kicked field-goals of 46, 37 and 23 yards.

Alabama got its only points late in the third quarter when sophomore Mike Shula, son of Miami Dolphin coach Don Shula, capped an 85-yard drive with a 3-yard touchdown pass to Ricky Moore.

Georgia Tech, which led 13-0 at halftime and 16-0 early in the third quarter, did not allow an Alabama first down until midway through the second quarter. The loss left the Tide with an 0-2 record for the first time since 1956 — two years before Bryant returned to his alma mater to develop a perennial national power.

Brigham Young 38, Tulsa 15

In Provo, Utah, Robbie Bosco passed for 337 yards and Vai Sikahema scored on an 89-yard punt return as Brigham Young steamrollered Tulsa, 38-15. Bosco hit Dave Mills on a 7-yard TD pass and ran 33 yards for another score as the Cougars ran their nation-leading winning streak to 14 games.

Miami 28, Purdue 17

In West Lafayette, Indiana, Alonzo Highsmith ran for two touchdowns, one from 47 yards out, to lead Miami past Purdue, 28-17. Darryl Oliver scored on a 2-yard run and quarterback Bernie Kosar scored from 1 yard out for the Hurricanes, who dodged a second straight loss and lifted their record to 3-1.

Oklahoma 42, Pittsburgh 10

In Pittsburgh, Danny Bradley passed for two touchdowns and rushed for two others to lead Oklahoma to a 42-10 romp over Pittsburgh.

Texas 35, Auburn 7

In Austin, Texas, quarterback Todd Dodge ran for one touchdown and passed for another and Jerome Johnson scored twice to lead Texas to a 35-7 mauling of Auburn. Auburn, which dropped its sedond straight, also lost running back Bo Jackson, who separated a shoulder. The 222-pound junior was injured on a 53-yard run in the third quarter as all-American safety Jerry Gray tackled him near the sidelines.

Notre Dame 24, Michigan St. 20

In East Lansing, Michigan, Allen Pinkett scored on a 5-yard run three plays after Mike Haywood blocked a fourth-quarter punt, lifting Notre Dame to a 24-20 victory over Michigan State. Haywood's black gave the Irish the ball on the Spartan 14-yard line, setting up Pinkett's run that capped Notre Dame's rally from a 17-0 first-quarter deficit. Winning quarterback Steve Beuerlein threw two touchdown passes — a 40-yarder to Pinkett and an 8-yarder to Milt Jackson.

Syracuse 13, Northwestern 12

In Evanston, Illinois, Jim Tait caught a 2-yard touchdown pass from Todd Norley with no time left and kicker Don McAulay tacked on the extra point to give Syracuse a 13-12 squeaker over Northwestern. The winning drive began at the Syracuse 37 with 3:29 left; the Orange moved 63 yards, mostly on Norley's passing. Northwestern appeared to have held on a 4th-and-goal at the its 6-yard line, but the referees whistled Jankeith Gatewood for pass interference, giving Syracuse the ball at the 2. On the final play of the game, Norley hit Tait on the left side of the end zone. *(UPI, AP)*

The Associated Press

Fullback Rick Fenney, plowing past Michigan defenders Jim Sarlcelli (85) and Kevin Brooks, scored just before halftime to break a 3-3 tie; Washington went on to a 20-11 victory.

Blue Jay Home Runs Beat Tigers, 7-2

United Press International

DETROIT — Willie Aikens drove in three runs with a pair of home runs Friday night, and Ernie Whitt hit a bases-empty homer to help the Toronto Blue Jays defeat the Detroit Tigers, 7-2.

Jim Clancy raised his record to 12-14 by allowing four hits in five innings. He was ejected by Larry Young, a rookie home-plate umpire, when a 1-and-2 pitch came too close to Kirk Gibson at the start of the sixth.

Young had warned both benches in the top of the inning, when the Tigers' Jack Morris (17-11) threw a ball too close to Damaso Garcia following home runs by Aikens and Whitt.

Although Gibson was not hit, Young immediately ejected Clancy from the game and then kicked out the Blue Jay manager, Bobby Cox, when he came out to argue the decision.

Jimmy Key came in to pitch for Toronto and walked the first two batters he faced. But a double play got him out of the inning, and the left-hander went on to pick up his ninth save of the year.

FRIDAY BASEBALL

Lou Whitaker singled to start the Detroit first and scored when left fielder Dave Collins let Alan Trammell's single get by him for an error. In the fifth, Whitaker singled in Ruppert Jones, who had walked and gone to third on a two-out single by Dave Bergman, to tie the game 2-2.

Yankees 7, Red Sox 1

In New York, Joe Cowley scattered six hits en route to his seventh straight victory, and Brian Dayett doubled in two runs to cap a four-run third that led the Yankees to a 7-1 triumph over Boston. Cowley (8-1) struck out eight and posted his third complete game of the season. His only loss occurred in a appearance on July 24.

Rangers 9, Twins 2

In Arlington, Texas, homers by Gary Ward and Larry Parrish accounted for five runs and spurred Texas to a 9-2 victory over Minnesota. Charlie Hough went the distance for the Rangers, striking out six and allowing seven hits in running his record to 16-12.

Angels 5, White Sox 0

In Anaheim, California, Reggie Jackson and Bobby Grich delivered back-to-back home runs to highlight a four-run fourth inning, and Geoff Zahn pitched a six-hitter to lead California to a 5-0 victory over Chicago. Doug DeCinces also homered.

Mariners 2, Royals 1

In Seattle, Alvin Davis homered with one out in the ninth to give the Mariners a 2-1 victory over Kansas City. Winner Mark Langston (15-9) pitched a route-going five-hitter. The rookie left-hander set a club record for most triumphs in a season and struck out nine to raise his total to 186.

Indians 6, A's 1

In Oakland, California, Brett Butler hit a grand-slam home run to lead Cleveland past the A's, 6-1. Neal Heaton (10-14) pitched five innings, giving up one run and eight hits for the victory. Tom Waddell and Ernie Camacho finished up for the Indians. Mel Hall also homered for Cleveland.

Brewers 4, Orioles 2

In Milwaukee, Tom Candiotti and Ray Searage combined on a seven-hitter, and Willie Lozado hit a two-run double in the seventh to lead the Brewers over Baltimore, 4-2, in a game whose start was delayed 91 minutes by rain.

Cubs 7, Mets 1

In the National League, in Chicago, Rick Sutcliffe won his 13th straight game, and Jody Davis hit a grand-slam homer to give the Cubs a 7-1 victory over New York. Sutcliffe, 15-1 since coming to Chicago from Cleveland on June 15, went the distance, giving up eight hits and walking none. He struck out six while moving to within one of the club record for consecutive victories (Ed Reulbach won 14 straight in 1909).

Padres 4, Astros 2

In Houston, Kurt Bevacqua doubled home two runs with two out in the ninth to carry San Diego past Houston, 4-2. Luis Salazar singled with one out in the ninth off Frank DiPino (4-9). He stole second and advanced to third on a groundout before Carmelo Martinez walked. Bevacqua then hit a shot that left fielder José Cruz apparently caught before crashing into the wall and dropping it. "I hit it hard enough for it to get out of any park in baseball," said Bevacqua of his first game-winning RBI of the season.

Giants 3, Braves 0

In Atlanta, Chili Davis scored on an error by third baseman Randy Johnson, and Bob Brenly hit a two-run home run to cap a three-run ninth that lifted San Francisco over the Braves, 3-0. In the ninth, Davis walked and Dusty Baker singled him to third. Davis scored as center fielder Dale Murphy's throw got past Johnson and Brenly hit his 20th homer.

Phillies 9, Expos 5

In Philadelphia, Mike Schmidt drove in three runs with two homers, and Steve Carlton gained his 312th victory as the Phillies topped Montreal, 9-5. Schmidt, who went 2-for-2, homered in the first off Steve Rogers with a man on.

Dodgers 6, Reds 5

In Cincinnati, Ken Landreaux hit a home run in the ninth to enable Los Angeles to shade Cincinnati, 6-5.

Pirates 8, Cardinals 7

In St. Louis, Johnny Ray led off the 12th with a home run off Bruce Sutter to lift Pittsburgh past St. Louis, 8-7. Ray's fifth homer of the year handed Sutter his fifth loss in 11 decisions. The Pirates had tied the game, 7-7, in the sixth when Marvell Wynne doubled, moved to third on a sacrifice and scored on Ray's sacrifice fly.

SCOREBOARD

Baseball

Friday's and Saturday's Major League Line Scores

FRIDAY'S RESULTS
NATIONAL LEAGUE

[illegible]

Robinson, Minton (8) and Brenly; McMurtry, Moore (9), Dedmon (9) and Trevino. W—Minton, 4-9. L—Moore, 4-4. HR—San Francisco, Brenly (20).

Montreal	000 102 101—5	11	2
Philadelphia	202 210 20x—9	14	0

Rogers, Hesketh (5), Burgor (7), St.Claire (8) and Carter; Carlton, Martin (7), Fireovid (9) and Virgil, Lavalliere (9). W—Carlton, 12-7. L—Rogers, 6-14. HRs—Montreal, Carter (25). Philadelphia, Schmidt 2 (33).

San Diego	200 000 002—4	5	1
Houston	000 010 010—2	7	0

AMERICAN LEAGUE

[illegible]

SATURDAY'S RESULTS
NATIONAL LEAGUE

[illegible]

AMERICAN LEAGUE

[illegible]

Major League Standings

AMERICAN LEAGUE
EAST

	W	L	Pct.	GB
Detroit	94	54	.635	—
Toronto	83	65	.561	11
Baltimore	79	67	.541	14
New York	79	68	.537	14½
Boston	77	70	.524	16½
Cleveland	68	81	.456	26½
Milwaukee	62	85	.422	31½
WEST				
Minnesota	75	72	.510	—
Kansas City	75	72	.510	—
California	74	72	.507	½
Chicago	67	80	.456	8
Oakland	68	81	.456	8
Seattle	66	83	.443	10
Texas	65	82	.442	10

NATIONAL LEAGUE
EAST

	W	L	Pct.	GB
Chicago	90	58	.608	—
New York	81	68	.544	9½
Philadelphia	79	70	.530	11½
St. Louis	77	71	.520	13
Montreal	72	75	.490	17½
Pittsburgh	65	84	.436	25½
WEST				
San Diego	82	65	.558	—
Houston	73	75	.493	9½
Atlanta	73	75	.493	9½
Los Angeles	71	77	.480	11½
Cincinnati	63	85	.429	19½
San Francisco	62	85	.422	20

Football

Selected U.S. College Results

EAST

Army 41, Colgate 15
Bucknell 42, Carnegie-Mellon 7
Buffalo St. 17, Brockport St. 10
Cent. Connecticut 23, Cortland St. 7
Coast Guard 24, RPI 6
C.W. Post 21, Kings Point 21, tie
Delaware St. 35, Northeastern 0
Fordham 27, Catholic U. 23
Gettysburg 33, W. Maryland 7
Holy Cross 19, Rhode Island 0
Lehigh 18, Connecticut 7
New Hampshire 21, Lafayette 7
Oklahoma 42, Pittsburgh 10
Rutgers 10, Temple 9
Swarthmore 30, Johns Hopkins 0
Union 31, Rochester 0
W. Virginia St. 28, W. Va. Weslyn 20
William & Mary 23, Delaware 21

SOUTH

Citadel 22, Presbyterian 6
E. Tennessee St. 10, E. Kentucky 7
Florida 63, Tulane 21
Furman 34, N. Carolina St. 30
Georgia Tech 16, Alabama 6
Houston 30, Miami (Ohio) 17
James Madison 38, Morehead St. 28
LSU 47, Wichita St. 7
Marshall 24, E. Michigan 17
Mississippi Col. 7, SE Louisiana 6
Navy 33, N. Carolina 30
Richmond 36, Maine 13
Southern Meth. 41, Louisville 7
S. Mississippi 34, Louisiana Tech 0
Tennessee 27, Utah 21
Tennessee St. 42, Alabama A&M 21
Vanderbilt 23, Maryland 14
Virginia 35, VMI 7
[illegible]

MIDWEST

[illegible]

SOUTHWEST

[illegible]

FAR WEST

Brigham Young 38, Tulsa 15
California 28, Pacific U. 12
Colorado St. 10, Hawaii 3
Nevada-Reno 61, Texas A&I 35
Nev.-Las Vegas 28, New Mexico St. 21
New Mexico 27, W. Texas St. 0
N. Arizona 42, Weber St. 21
Oregon 27, Colorado 20
San Diego St. 51, Texas-El Paso 2
Stanford 34, Illinois 19
Texas Christian 62, Utah St. 18
UCLA 23, Long Beach St. 17
Wyoming 26, Air Force 20

CFL Standings

EASTERN DIVISION

	W	L	T	PF	PA	Pts
Toronto	7	3	0	230	233	14
Montreal	4	6	0	252	277	8
Ottawa	3	8	0	252	371	6
Hamilton	2	8	1	227	343	5
WESTERN DIVISION						
Winnipeg	9	2	0	411	225	18
Brit Cimb	8	2	0	268	158	16
Edmonton	6	4	0	289	290	12
Calgary	5	6	0	226	258	10
Saskatchwn	2	7	1	214	311	5

Friday's Results
Calgary 23, Ottawa 21

Saturday's Results
[illegible]

Soccer

European First Division

ITALY

AC Milan 2, Udinese 2
Atalanta 1, Inter Milan 1
Avellino 0, Roma 0
Como 0, Juventus 0
Lazio 1, Fiorentina 0
Sampdoria 1, Cremonese 0
Torino 1, Ascoli 1
Verona 3, Napoli 1

WEST GERMANY

SV Hamburg 1, Bayer Leverkusen 1
Eintracht Frankfurt 1, FC Kaiserslautern 1
Fort. Duesseldorf 4, Eintracht Brunswick 1
SV Wald. Mannheim 0, Arminia Bielefeld 0
VFB Stuttgart 1, Werder Bremen 3
FC Cologne 1, Bayer Uerdingen 5
Bayern Munich 1, Borussia Dortmund 0
[illegible]

ENGLAND

[illegible]

FRANCE

[illegible]

Final NASL Standings

[illegible]

Transition

[illegible]

LANGUAGE

Hide That Agenda

By William Safire

WASHINGTON — Thumbing through The New Yorker this summer, Serena Rattazzi of Port Washington, New York, came across the phrase *a hidden agenda* in an article by John McPhee, followed by *a hidden agendum* later in the same piece.

"If I recall correctly, *agenda* means 'things to do,'" she writes. "It is a plural noun and, therefore, cannot be used with the singular article *a*."

Rattazzi is so right she's wrong. Long ago, before committees took over the world, the word *agendum* meant "list of matters to be discussed." Good Latin students knew that *agenda* was the plural of *agendum* — only if you carried two lists into the meeting could you be said to be loaded with *agenda*.

Then along came The Westmoreland Gazette, published in England, which took to using the term *agenda-paper* in its coverage of a conference in 1887. By 1905, this breezy modernism was customary: "The Czar . . . and the Kaiser . . . are meeting today. . . . We are not given the agenda-paper of their conversation." Thus was *agenda* used to mean one list of items rather than more than one.

In the first volume of the Supplement to the Oxford English Dictionary, published in 1972, the lexicographers, taking note of the tendency to bastardize the Latin ending, defined the newest use of *agenda* in these words: "treated as a singular (a use now increasingly found but avoided by careful writers)."

Here we are in the 1980s, and if any executive were to begin a meeting with "What's on the agendum?" he would be consigned to corporate purgatory as some kind of neo-traditionalist weirdo. Committeemanship requires the diffusion of responsibility and the worship of the norm; any deviation from common usage brands the deviator as an individual not suited to task-force life. (Sorry, Charlie, language is language.)

Today's careful writers take care to avoid the appearance of pedantry. Although they still refuse to substitute *memorandums* for *memoranda*, they know it would make them look like Eustace Tilley, complete with top hat and monocle, to insist on *agendum* as the singular of *agenda*.

Rattazzi's plaintive cry for a return to roots, though hopeless, is not useless: She has triggered a search for the evolution of a new derogation. Whence *hidden agenda*?

In the 1960s, *agenda* was taken from business and applied to political programs, mainly by academics: *The liberal agenda* was a common phrase and carried overtones of furrowed brows and compassionate lists. However, on April 19, 1976, Newsweek quoted an unidentified California politician as saying, "Those folks who have their own agenda for Hubert [Humphrey] underestimate Jerry Brown." A couple of months later, the newsmagazine quoted a Carter adviser, Dr. Peter Bourne, as saying that "everybody wants to win, and people are willing to subordinate their own agendas to do that."

ONE'S *own agenda* is a list of personal desires or goals. This *metaphoric extension of the list to* be carried into a meeting suggests a mental list to be carried through life, but — and here is the sense that gives the phrase piquancy — not to be publicly revealed.

Own agenda soon became *private agenda*. Newsweek, apparently with its own neologistic agenda, reported in 1980 that former Treasury Secretary William Simon worried Reagan staff aides "as a bit of a prima donna with a brilliant mind, an abrasive manner and a private agenda to pursue — an agenda some people now think includes the presidency for himself." As this citation suggests, *private agenda* has a sinister connotation; the agenda-keeper seems to be accused of not sharing his goals with his colleagues.

Evidently *private*, an adjective with a fairly good connotation, was not sufficiently sinister. (*Privacy* is good but *secrecy* is bad.) Hence, we have the appearance of *hidden agenda* as well as the archaic *hidden agendum* in The New Yorker, as well as the rising use of *secret agenda* in political parlance. *Secret agenda* brands the perpetrator as Machiavelli reborn.

I have had this subject on a list of possible future columns that I tucked away in my wallet, not to be seen by anyone, and I now know what to call the list.

New York Times Service

A Child's Crusade for the Homeless

By William Robbins
New York Times Service

PHILADELPHIA — The paint is peeling, a few windows sag and the plumbing doesn't work too well, but an old rooming house is slowly growing into a new Philadelphia institution, a home for the homeless established by a 12-year-old boy.

Trevor's Place, as the old 33-room building is called, evolved from a visit last December by the boy, Trevor Ferrell, to one of the thousands of homeless people who roam Philadelphia's streets.

The aftermath of that visit has consumed the energies of Trevor's family, fired the imagination of neighbors and local churchgoers who have joined a crusade for the homeless now called Trevor's Campaign, drawn local experts to provide social, medical and legal help and laid the groundwork for expansion of the crusade into a national movement.

It has also generated a wave of contributions from across the country, showered young Trevor with honors and demands for public appearances and made him the subject of a projected motion picture and a book planned by a major publishing house.

Meanwhile, 12-year-old Trevor walks through the attention with the same unassuming air he displayed when, on a freezing night about eight months ago, he tentatively nudged a man he found sleeping on a downtown sidewalk. Trevor offered a blanket and a pillow and, he said later, felt warmed by the man's grateful smile.

In downtown Philadelphia, Trevor had found a world he never knew existed. It invaded the comfort of his home in the Main Line suburb of Gladwyne last December while he and his family sat watching television. Suddenly, there on the screen were the huddled, shivering figures of the homeless.

Soon Trevor, then 11, his father, Frank, and his mother, Janet, were heading downtown, the boy carrying a blanket and a pillow.

"If only that man had growled and said, 'Get away from me,' we might have been turned away, and we wouldn't be tied up in all this," Frank Ferrell said.

Instead, that first visit led to nightly tours to deliver soup and sandwiches and distribute clothing and blankets.

Trevor canvassed suburban neighborhoods seeking help, and he and his father visited churches, sometimes taking Trevor's friends from the streets along. Soon the Ferrells' work was discovered by a suburban newspaper, then by other local papers, by national newspapers and magazines and then by television. Contributions ranging from $1 to $1,000 began to flow in, and Trevor began to talk wistfully about getting a house to shelter his friends.

The house, in North Philadelphia, was badly in need of repairs, but a small group of volunteers helps the Ferrells there on Wednesdays, Thursdays and weekends. And now Trevor's Place, where the Ferrells envision sheltering up to 100 people, has its first five residents, despite plumbing so badly in need of repairs that the cost of the work is projected at $25,000.

Trevor Ferrell passes out food to homeless people. Below, Albert Smith and Joseph Repash, residents of Trevor's Place, scrape old paint from the woodwork.

The New York Times

Contributions so far have totaled about $19,000. In addition, Trevor has been named a recipient of the John-Roger Foundation's International Integrity Award, an honor that includes a grant of $10,000. And, under contracts already negotiated with the aid of a leading Philadelphia law firm, book and motion-picture rights to the Ferrells' story could total about $75,000.

The Ferrells had already begun to think of Trevor's Campaign as a possible permanent pursuit when a fellow member of the Gladwyne Presbyterian Church suggested that Ferrell get in touch with Resources for Human Development in nearby Ardmore, an umbrella organization that provides a variety of services for about 30 charitable and public-interest agencies.

That nonprofit corporation has encouraged the Ferrells to consider a national organization, with satellite units pursuing work like that of the Ferrells here. It has also awarded Mr. and Mrs. Ferrell salaries that total about $1,000 a month as directors of Trevor's Campaign.

Still, the Ferrells have paid a price for their work. They had been living on savings since Ferrell, finding himself overwhelmed by the demands of Trevor's Campaign, a few months ago closed a television repair business that had enabled him to maintain a house.

Trevor, who had acknowledged getting "just average" grades, will have to repeat the sixth grade because of time lost from his homework. And Mrs. Ferrell concedes that she often feels tired as a result of "washing so many pots and pans."

LIVERPOOL POSTCARD

Little-Known Rewards

By Henry Mitchell
Washington Post Service

LIVERPOOL — Liverpool might as well be under 30 feet of volcanic ash as far as the ordinary visitor to England is concerned. It is one of the least known of great cities, but it is one that well rewards the tourist.

This year its International Garden Festival, which runs through Oct. 14, has drawn many thousands, including some who expected the South Bronx, say, but who found instead a city more like New Orleans or Marseille.

"People know us for the Beatles," said Hilary Oxlade, a volunteer guide for the Merseyside Development Corp., "and beyond that they guess we are full of punks and they suppose nobody here works very hard — all that sort of thing."

Now a city of 580,000, it was chartered in 1207 by the King John who signed the Magna Carta. His majesty told everybody to move to Liverpool, but nobody did, to speak of. The town rather dozed until the 18th century, when American cotton began to float on barges down the Mississippi River toward Liverpool and the great English factories.

The festival aimed to give the city's economy a happy jolt, and Queen Elizabeth herself opened the 125-acre (50-hectare) gardens that have risen from a decrepit stretch of old shipping docks.

Half the site will become a permanent promenade and gardens, while the other half will provide 1,000 home sites and various industrial headquarters.

The site was originally flatter than a two-day-old pancake, but 600,000 tons of silt were raised from the docks and hundreds of thousands of additional tons of rubble and lumber were used to make rolling hills — a mountain, one would say after trudging up to one of the major viewpoints.

A little steam engine pulling open carriages puffs valiantly through the gardens, stuffed with children, who seem to prefer the train to the study of labels in, say, the Australian garden packed with horticultural rarities.

There are 40 acres of British "theme gardens," devoted to Alpine plants, heathers, roses, bog plants and so on.

People line up to go through quite small model houses with small gardens attached. As in the rest of the world, housing is costly now, and the days when "small garden" meant 2 to 4 acres are past.

Many nations have contributed small gardens. Germany offers perhaps a trillion daisies in tints of yellow and orange with spikes of salvia. The Egyptians have some rosy columns, rather small, but suggestive of the great ones at Luxor, while the Greeks have white ones, hinting at the Parthenon. The Dutch have a windmill, modern, with three blades.

The United States has a plot of 1 acre that in future years will show noble American trees, now saplings, as a memorial to men of the Eighth Air Force, based in England, who died in World War II.

The crowd, which you did not come to see, is nevertheless enchanting to watch. It is rare that so many humans may be seen so contented, so shirt-sleeved and so slow.

If the gardens, as gardens, are far less than spectacular, still the engineering by which such vast fills have been made is impressive, and the promise for the future, when the scrub turns to noble forest along a great esplanade, is something to applaud.

The festival undoubtedly has lured thousands to Liverpool who ordinarily would have collapsed in Canterbury and let it go at that.

Liverpudlians are forever asking if one did not like Liverpool more than one expected to, and the invariable answer is yes.

This is not merely because Liverpool is poorly advertised in the books that tourists read before setting out, so that almost anything would exceed their expectations, but also because Liverpool has an easily detectable tone of open friendliness.

Its art gallery has the largest collection of paintings in England outside London, including just now "The Art of the Beatles" — photographs of and by these singers and paintings and drawings by them.

The club at which the Beatles sang is destroyed, but the site is marked, and across the street a statue of Mother Liverpool with three cherubs in her lap, said to be Beatles (one has flown), is fixed to a wall. It is virtually a shrine.